

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number: 001-16765

TRIZEC PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>33-0387846</u> (I.R.S. Employer Identification No.)
1114 Avenue of the Americas, 31st Floor New York, NY	<u>10036</u>
(Address of principal executive offices)	(Zip Code)
<u>212-382-9300</u> (Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.01 par value	New York Stock Exchange
Exchange Certificates, exchangeable for Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Exchange on Which Registered
None	None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The registrant is unable to calculate the aggregate market value of its outstanding common stock held by non-affiliates of the registrant because there is no public trading market for the registrant's common stock.

As of March 7, 2001, 38,220,000 shares of common stock were issued and outstanding.

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Forward-Looking Statements

This Form 10-K contains forward-looking statements relating to our business and financial outlook, which are based on our current expectations, estimates, forecasts and projections. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other comparable terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any such statement to reflect new information, the occurrence of future events or circumstances or otherwise.

A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, the risks described under “Item 1. Business Risk Factors” in this Form 10-K.

The TrizecHahn Corporate Reorganization” below. As a result of this reorganization, we expect to become a publicly traded REIT and to own all of the U.S. assets that TrizecHahn Corporation currently owns, directly or indirectly. Upon completion of the corporate reorganization, we will be the second largest fully integrated, self-managed, publicly traded office company in the United States based on the square footage of our owned and managed office properties as of December 31, 2001, according to our internal estimates that are based on publicly available information about our competitors as of February 15, 2002.

At December 31, 2001, we had total assets of \$6.1 billion and owned interests in or managed 76 office properties containing approximately 49 million square feet, with our pro rata ownership interest totaling approximately 41 million square feet. Based on square footage, approximately 77% of our buildings are located in central business districts, or CBDs, of major U.S. cities, including Atlanta, Chicago, Dallas and Houston and the Los Angeles, New York and Washington, D.C. areas, and approximately 76% of our buildings are Class A. We consider Class A office buildings to be buildings that are professionally managed and maintained, that attract high-quality tenants and command upper-tier rental rates and that are modern structures or have been modernized to compete with newer buildings. We also own land and development rights which would allow us to develop an additional 6.5 million square feet of office properties in key cities in the United States when and if market conditions warrant.

We are also completing the stabilization of three destination-oriented retail and entertainment centers. We intend to complete the leasing of these projects to achieve stable operating cash flows and then to dispose of these assets in an orderly fashion over the next several years.

Trizec (USA) Holdings, Inc. was incorporated in Delaware on October 25, 1989, changed its name to TrizecHahn (USA) Corporation in 1996 and changed its name to Trizec Properties, Inc. in 2002. We will elect to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing in 2001. As a REIT, we generally will not be subject to U.S. federal income tax if we distribute 100% of our taxable income and comply with a number of organizational and operational requirements.

We own our office property portfolio through our wholly owned subsidiary, TrizecHahn Office Properties Inc., and through some of its subsidiaries, including TrizecHahn Centers Inc. Our affiliate, TrizecHahn Developments Inc., or THDI, currently owns and manages our retail/entertainment projects. THDI was distributed out of our company in September 1999 and is currently an indirect, wholly owned subsidiary of our ultimate parent company, TrizecHahn Corporation. Prior to the completion of the corporate reorganization, THDI will be contributed back to us.

Business and Growth Strategies

Our goal is to increase stockholder value through sustained growth in operating cash flow, thereby increasing the value of our portfolio. In the near term, we believe we can achieve our goal through the following strategies:

- intensively managing our properties and our portfolio to maximize property operating income;
- improving the efficiency and productivity of our operations; and

- maintaining a prudent and flexible capital plan.

Intensively Managing Our Properties and Our Portfolio

By intensively managing our properties, we expect to maximize the property operating income, or POI, from our properties. We define POI as our total rental revenue including tenant recoveries and parking, fee and other income less our operating expenses and property taxes, and including our share of property net operating income from unconsolidated real estate joint ventures. This measure excludes property related depreciation and amortization expense. To maximize POI, we have focused on:

- narrowing the gap between market rents and in-place rents as leases for our properties expire, and
- increasing occupancy in our properties.

In 2001, average net rental rates on 8.0 million square feet of new and renewal leases increased \$1.03 per square foot. This increase reflected the impact of re-leasing space in properties with in-place rents below our estimate of market rents. For our total portfolio, our estimates of market rents at December 31, 2001 were on average approximately 25% above our in-place rents. These market conditions, combined with a scheduled lease expiration profile of approximately 11.5% of occupied space at December 31, 2001 expiring annually over the next five fiscal years, should continue to contribute to future revenue growth.

Vacant space in our portfolio, which approximated 5.7% or 2.4 million square feet at December 31, 2001, represents an opportunity to increase our cash flow.

Cash received on our rental revenue has and will continue to benefit from contractual rental increases, opportunistic lease terminations and the execution of “blend and extend” strategies, which allow early lease renewals at rates that blend the rents of the current lease with the rents for the renewal term. For the year ended December 31, 2001, the combined impact of these leasing strategies resulted in a 6% increase in POI from comparable office properties, *i.e.*, those office properties owned both at December 31, 2001 and 2000, and in each case for the full year.

Our portfolio strategy is to invest in office properties in the CBDs of major metropolitan areas demonstrating high job growth. We believe that focusing on our core markets, currently Atlanta, Chicago, Dallas, Houston, Los Angeles, New York and the Washington, D.C. area, will allow us to achieve economies of scale across a diverse base of tenants and provide for sustainable property cash flow. For the year ended December 31, 2001, our seven core markets accounted for 80% of our total office property POI. In the second quarter of 2001, we acquired, for \$182 million, three Class A office buildings, totaling 818,000 square feet, located in our core markets of Chicago and Washington, D.C.

Improving the Efficiency and Productivity of Our Operations

Controlling both property operating expenses as well as general and administrative expenses are key to achieving our goal of maximizing our operating cash flow. In June 2001, we realigned and simplified our management structure and announced plans for consolidating our seven regional accounting, payroll and information services functions in Chicago. This reorganization will result in a net reduction of approximately 85 employees by the end of 2002. We expect our functional and office consolidations to generate general and administrative expense savings over time.

In July 2001, to provide a foundation and foster a culture for improving productivity and margins, we announced our Six Sigma quality initiative. The Six Sigma initiative is a program for continuous process improvement designed to generate bottom-line improvement through higher levels of customer satisfaction and internal productivity. The program will focus on gross margin improvement by growing revenues, reducing the downtime between tenancies and achieving cost savings from internal productivity improvements.

Maintaining a Prudent and Flexible Capital Plan

We believe that, in order to maximize our cash flow growth, our asset management and operating strategies must be complemented by a capital strategy designed to maximize the return on our capital. Our capital strategy is to:

- establish adequate working capital and lines of credit to ensure liquidity and flexibility;
- employ an appropriate degree of leverage;
- maintain floating rate debt at a level that allows us to execute our portfolio realignment strategy without incurring significant prepayment penalties; and
- actively manage our exposure to interest rate volatility through the use of long-term fixed-rate debt and various hedging strategies.

In May 2001, we significantly strengthened our balance sheet by refinancing \$1.16 billion of existing long-term debt through the private placement issuance by a special-purpose vehicle created by one of our subsidiaries of \$1.44 billion of commercial mortgage pass-through certificates. The certificates are backed by mortgages that secure loans on 28 office properties and have maturities of five, seven and 10 years. At December 31, 2001, the weighted average interest rate on this debt was 4.9%, and it replaced existing debt at 7.1%. The transaction addressed near-term maturities of existing debt and also increased the ratio of fixed-rate debt to total debt to 71% at December 31, 2001 compared with 69% at the end of 2000. In addition, the provisions of the financing relating to the release and substitution of properties provide for ample flexibility to execute our portfolio realignment strategy.

To facilitate execution of TrizecHahn Corporation's corporate reorganization and to provide liquidity and flexibility in the future, we have negotiated a \$350 million senior unsecured revolving credit facility. In December 2001, \$200 million of the facility was committed and closed with a group of four banks. The remaining \$150 million of the facility was syndicated to a group of seven banks and closed in early January 2002. The amount currently eligible to be borrowed is \$314 million.

Competition

The leasing of real estate is highly competitive. We compete for tenants with lessors and developers of similar properties located in our respective markets primarily on the basis of location, rent charged, services provided, and the design and condition of our buildings. We also experience competition when attempting to acquire real estate, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, trust funds, partnerships and individual investors.

Industry Segments and Seasonality

Our primary business is the ownership and management of office properties. Our long-term tenants are in a variety of businesses and no single tenant is significant to our business. Our business is not seasonal.

Subsidiaries

The following table shows our subsidiaries with total assets that constitute more than 10% of our consolidated assets as of December 31, 2001 or total revenues that constitute more than 10% of our consolidated revenues for the year ended December 31, 2001.

<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>
TrizecHahn Office Properties Inc.	Delaware
TrizecHahn Centers Inc.	California

Employees and Organizational Structure

At January 1, 2002, we had 1,193 employees, 972 of which were employed in our integrated office portfolio operations and 221 of which were employed in our retail/entertainment group. Of these employees, 155 were employed in our corporate offices, with the remainder employed in the operation of our property portfolio. Additionally, 160 of our employees that are employed in our office portfolio operations are represented by labor unions. We consider our labor relations to be positive and anticipate maintaining agreements with our labor unions on terms satisfactory to all parties.

In 2001, as a result of a comprehensive review of operations directed at simplifying our management structure and realizing benefits from functional and office location consolidations, corporate leadership and portfolio management functions were centralized in New York and Chicago. Consistent with our focus on core cities, we have dedicated regional leasing and property management teams based in Atlanta, Chicago, Houston, Los Angeles, New York and Washington, D.C.

Our retail/entertainment business is based in Los Angeles and San Diego, with standalone development, operating and financial services functions. As part of our announced functional reorganization, we will centralize financial service functions in Chicago during 2002.

RISK FACTORS

You should carefully consider the risks described below. These risks are not the only ones that our company may face. Additional risks not presently known to us or that we currently consider immaterial may also impair our business operations and hinder our ability to make expected distributions to our stockholders.

This Form 10-K also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below or elsewhere in this Form 10-K.

Risks Relating to Our Business

Our economic performance and the value of our real estate assets are subject to the risks incidental to the ownership and operation of real estate properties

Our economic performance, the value of our real estate assets and, therefore, the value of your investment are subject to the risks normally associated with the ownership and operation of real estate properties, including:

- changes in the general and local economic climate;
- the cyclical nature of the real estate industry and possible oversupply of, or reduced demand for, space in our core markets;
- trends in the retail industry, in employment levels and in consumer spending patterns;
- changes in household disposable income;
- changes in interest rates and the availability of financing;
- competition from other properties;
- the attractiveness of our properties to tenants;
- changes in market rental rates and our ability to rent space on favorable terms;
- the bankruptcy or insolvency of tenants;
- the need to periodically renovate, repair and re-lease space and the costs thereof;
- increases in maintenance, insurance and operating costs; and
- civil unrest, acts of terrorism, earthquakes and other natural disasters or acts of God that may result in uninsured losses.

In addition, applicable federal, state and local regulations, zoning and tax laws and potential liability under environmental and other laws may affect real estate values. Real estate investments are relatively illiquid and, therefore, our ability to vary our portfolio quickly in response to changes in economic or other conditions is limited. Further, we must make significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, throughout the period that we own real property regardless of whether the property is producing any income. The risks associated with real estate investments may adversely affect our operating results and financial position, and therefore the funds available for distribution to you as dividends.

Our inability to enter into renewal or new leases on favorable terms for all or a substantial portion of space that is subject to expiring leases would adversely affect our cash flows and operating results

Scheduled lease expirations in our U.S. office portfolio over the next five fiscal years average approximately 11.5% annually, based on occupied space at December 31, 2001. When leases for our properties expire, we may be unable to promptly renew leases with existing tenants or lease the properties to new tenants. In addition, even if we were able to enter into renewal or new leases in a timely manner, the terms of those leases may be less favorable to us than the terms of expiring leases because:

- the rental rates of the renewal or new leases may be significantly lower than those of the expiring leases; or
- tenant installation costs, including the cost of required renovations or concessions to tenants, may be significant.

We expect significant lease expirations in 2002 among our office properties in Atlanta, Houston and the Washington, D.C. area. In order to enter into renewal or new leases for large blocks of space in these markets, we may incur higher tenant installation costs. If we are unable to enter into renewal or new leases on favorable terms for all or a substantial portion of space that is subject to expiring leases, our cash flows and operating results would suffer.

If a significant number of our tenants defaulted or sought bankruptcy protection, our cash flows and operating results would suffer

A tenant may experience a downturn in its business, which could cause the loss of that tenant or weaken its financial condition and result in the tenant's inability to make rental payments when due. In addition, a tenant of any of our properties may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of such tenant's lease and cause a reduction in our cash flows. Although we have not experienced material losses from tenant bankruptcies, we cannot assure you that tenants will not file for bankruptcy or similar protection in the future.

We cannot evict a tenant solely because of its bankruptcy. A court, however, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In any event, it is unlikely that a bankrupt tenant will pay in full amounts it owes us under a lease. The loss of rental payments from tenants would adversely affect our cash flows and operating results.

Our business is substantially dependent on the economic climates of seven core markets

Our real estate portfolio consists mainly of office properties in seven core markets: Atlanta, Chicago, Dallas, Houston and the Los Angeles, New York and Washington, D.C. areas. As a result, our business is substantially dependent on the economies of these markets. Although we believe that our real estate portfolio is significantly diversified, a material downturn in demand for office space in any one of our core markets could have a material impact on our ability to lease the office space in our portfolio and may adversely impact our cash flows and operating results.

Our competitors may adversely affect our ability to lease our properties, which may cause our cash flows and operating results to suffer

We face significant competition from developers, managers and owners of office, retail and mixed-use properties in seeking tenants for our properties. Substantially all of our properties face competition from similar properties in the same markets. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to make space available at lower prices than the space in our properties. Competition for tenants could have a material adverse effect on our ability to lease our properties and on the rents that we may charge or concessions that we must grant. If our competitors adversely impact our ability to lease our properties, our cash flows and operating results may suffer.

We may be unable to complete the disposition of our non-core retail/entertainment properties on a timely basis or on acceptable terms

We are currently completing the stabilization of three retail/entertainment centers. We plan to hold all three of these projects until their operations are stabilized in order to realize maximum value upon disposition. A number of factors, however, may impair our ability to dispose of these properties on a timely basis or on acceptable terms, including:

- physical characteristics, mixes of tenants and uses, required operating resources and expertise and “anchor” tenants or other attributes that might not be considered typical for a shopping complex;
- the relatively large size and value of the assets;
- their relatively short operating histories;
- the requirements of, and dependence of the relevant project on, contractual and working relationships with key tenants, operators, government authorities and other third parties;
- the limited number of parties with the strategic interest and financial capability to be potential buyers of these properties; and
- competition for tenants or customers from other projects or destinations.

One of these projects is Hollywood & Highland, a retail, entertainment and hotel complex in Los Angeles, California that opened in late 2001. Additional factors specific to that property that may adversely affect our ability to sell it include:

- the extent to which its revenues are derived from sources other than traditional leases of retail space; and
- risks normally associated with hotel properties, including fluctuating and seasonal demands of business travelers and tourism, and economic conditions that may affect the demand for travel in general.

Another property, Desert Passage in Las Vegas, Nevada, adjoins the Aladdin Hotel and Casino. The owners of the Aladdin filed for Chapter 11 reorganization in September 2001, which could adversely affect our ability to sell Desert Passage by:

- impairing the public perception and interest of potential shoppers, tenants and purchasers in Desert Passage as a result of the perceived association with the Aladdin;
- limiting or delaying our collection or enforcement of amounts or obligations owed to us by the Aladdin; and
- complicating or delaying the removal of liens potentially affecting Desert Passage.

The bankruptcy of the Aladdin is likely to have a negative impact on the property operating income of Desert Passage while we hold it for disposition, which could adversely affect our operating results.

The September 2001 terrorist attacks may adversely affect the property operating income from our properties, as well as our ability to sell properties that we are holding for disposition on a timely basis or on acceptable terms

The September 2001 terrorist attacks in New York and Washington, D.C. and related circumstances may adversely affect the U.S. economy and, in particular, the economies of the U.S. cities that comprise our core markets. This could have a material adverse impact on our ability to lease the office space in our portfolio. As a result, the property operating income from our office properties, and therefore our operating results, may suffer.

The September 2001 terrorist attacks also are likely to adversely affect revenues from our retail/entertainment properties, particularly Hollywood & Highland and Desert Passage, which depend on tourism for a significant portion of their visitors. The potential adverse effects on Hollywood & Highland and Desert Passage of the September 2001 terrorist attacks include:

- reducing tourist or convention visitors or spending levels in Los Angeles and Las Vegas, particularly visitors arriving by air, a source of business upon which Las Vegas is particularly dependent;
- reducing the number of expected guests at the hotel portion of Hollywood & Highland; and
- reducing the number of hotel guests and casino patrons at the Aladdin Hotel and Casino and, therefore, visitors to Desert Passage.

These and other factors are likely to have a negative effect on the property operating income of our retail/entertainment properties while we hold them for disposition, which could adversely affect our operating results. In addition, the September 2001 terrorist attacks may reduce the number, financial capabilities or strategic interest of potential buyers of these properties. Until the full impact of the September 2001 terrorist attacks is known, we may be unable to sell our retail/entertainment properties on a timely basis or on acceptable terms .

In addition, as a consequence of the September 2001 terrorist attacks, we have increased the level of security at our properties. We may not be able to pass on all of the increased security costs to our tenants. As a result, the property operating income from our properties, and therefore our operating results, may suffer.

Our financial covenants could adversely affect our financial condition and results of operations

The financings secured by our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. In addition, our senior unsecured revolving credit facility contains certain customary restrictions, requirements and other limitations on our ability to incur indebtedness, including debt ratios that we will be required to maintain.

We expect to rely on borrowings under our credit facility for working capital and to finance acquisitions and development activities. Our ability to borrow under our credit facility is subject to compliance with our financial and other covenants. If we are unable to borrow under our credit facility, or to refinance existing indebtedness, our financial condition and results of operations would likely be adversely impacted. If we breach covenants in a debt agreement, the lender can declare a default and require us to repay the debt immediately and, if the debt is secured, can immediately take possession of the property securing the loan. In addition, some of our financings are cross-defaulted to our other indebtedness, which cross-default would give the lenders under those financings the right also to declare a default and require immediate repayment.

Our degree of leverage may adversely affect our business and the market price of our common stock

At December 31, 2001, our leverage, which we define as the ratio of our mortgage debt and other loans less cash and cash equivalents to the sum of net debt and the book value of owner's equity, was approximately 52.8%. Furthermore, our leverage likely will increase in the future upon our anticipated acquisition of the Sears Tower in

2003. For additional information about our interest in the Sears Tower, see “Item 2. Properties – Office Property Portfolio – Investment in Sears Tower” in this Form 10-K.

Our degree of leverage could adversely affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, developments or other general corporate purposes. Our degree of leverage could also make us more vulnerable to a downturn in our business or the economy generally. We have entered into certain financial agreements that contain financial and operating covenants limiting our ability under certain circumstances to incur additional secured and unsecured indebtedness. There is also a risk that a significant increase in the ratio of our indebtedness to the measures of asset value used by financial analysts may have an adverse effect on the market price of our common stock.

Because we must distribute a substantial portion of our net income to qualify as a REIT, we may be dependent on third-party sources of capital to fund our future capital needs

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund all of our future capital needs, including capital for property acquisitions and developments, from our net income. Therefore, we may have to rely on third-party sources of capital, which may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market’s perception of our growth potential and our current and potential future earnings. Moreover, additional debt financings may substantially increase our leverage.

We face risks associated with the use of debt to finance our business, including refinancing risk

We incur debt in the ordinary course of our business. We expect that we will repay prior to maturity only a small portion of the principal of our debt. We therefore plan to meet our maturing debt obligations partly with existing cash and available credit, cash flows from operations and sales of non-core assets, but primarily through the refinancing of maturing debt obligations with other debt. We are subject to risks normally associated with debt financing, and our ability to refinance our debt will depend on:

- our financial position;
- the value of our properties;
- liquidity in the debt markets;
- the availability on commercially acceptable terms of insurance coverage required by lenders;
- general economic and real estate market conditions; and
- financial, competitive, business and other factors, including factors beyond our control.

We cannot assure you that any refinancing of debt with other debt will be possible on terms that are favorable or acceptable to us. If we cannot refinance, extend or pay principal payments due at maturity with the proceeds of other capital transactions, such as new equity capital, our cash flows will not be sufficient in all years to repay all maturing debt.

Restrictions in loan agreements may limit the distributions we receive from our operating subsidiaries and the amounts available for distributions to you as dividends on our common stock

We conduct our operations through operating subsidiaries. We and some of our subsidiaries, including subsidiaries that carry on a substantial part of our overall business, are parties to loan agreements containing provisions that require the maintenance of financial ratios and impose limitations on additional indebtedness and distributions in respect of capital stock. These provisions may limit the amount and flexibility of our current and future financings, the receipt of cash distributions from some of our subsidiaries and, therefore, the amounts that will be available for distributions to you as dividends on our common stock. In addition, to qualify as a REIT we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital

gains. The provisions in loan agreements discussed above may impair our ability to make the requisite distributions to our stockholders and may force us to borrow funds on a short-term basis to meet the distribution requirements. We cannot assure you that we will be able to borrow funds on terms that are favorable to us.

If we are unable to manage our interest rate risk effectively, our cash flows and operating results may suffer

As at December 31, 2001 we had approximately \$889.7 million of debt outstanding that is subject to variable interest rates, and we may incur additional debt that bears interest at variable rates. Accordingly, if interest rates increase, our debt costs will also increase. To manage our interest rate risk, we enter into interest rate protection agreements consisting of swap contracts and cap contracts. Despite our hedging activities, we cannot assure you that we will be able to manage our interest rate risk effectively or that our variable rate exposure will not have a material adverse effect on our cash flows and operating results.

Environmental problems at our properties are possible, may be costly and may adversely affect our operating results or financial condition

We are subject to various federal, state and local laws and regulations relating to environmental matters. Under these laws, we are exposed to liability primarily as an owner or operator of real property and, as such, we may be responsible for the cleanup or other remediation of contaminated property. Contamination for which we may be liable could include historic contamination, spills of hazardous materials in the course of our tenants' regular business operations and spills or releases of hydraulic or other toxic oils. An owner or operator can be liable for contamination or hazardous or toxic substances in some circumstances whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances on property, or the failure to properly clean up or remediate such contamination or hazardous or toxic substances when present, may materially and adversely affect our ability to sell or rent such contaminated property or to borrow using such property as collateral.

Asbestos-containing material, or ACM, is present in some of our properties. Environmental laws govern the presence, maintenance and removal of asbestos. We believe that we manage ACM in accordance with applicable laws. We plan to continue managing ACM as appropriate and in accordance with applicable laws and believe that the cost to do so will not be material.

Environmental laws and regulations can change rapidly, and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our operating results or financial condition. We believe that our exposure to environmental liabilities under currently applicable laws is not material. We cannot assure you, however, that we currently know of all circumstances that may give rise to such exposure.

If we were required to accelerate our efforts to comply with the Americans with Disabilities Act, our cash flows and operating results could suffer

All of our properties must comply with the Americans with Disabilities Act, or the ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require us to remove access barriers, and non-compliance could result in the imposition of fines by the U.S. government or an award of damages to private litigants. We believe that the costs of compliance with the ADA will not have a material adverse effect on our cash flows or operating results. However, if we must make changes to our properties on a more accelerated basis than we anticipate, our cash flows and operating results could suffer.

Additional regulations applicable to our properties may require us to make substantial expenditures to ensure compliance, which could adversely affect our cash flows and operating results

Our properties are, and properties that we may acquire in the future will be, subject to various federal, state and local regulatory requirements such as local building codes and other similar regulations. If we fail to comply with these requirements, governmental authorities may impose fines on us or private litigants may be awarded damages against us.

We believe that our properties are currently in substantial compliance with all applicable regulatory requirements. New regulations or changes in existing regulations applicable to our properties, however, may require us to make substantial expenditures to ensure regulatory compliance, which would adversely affect our cash flows and operating results.

Our insurance may not cover some potential losses

We carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. Some types of risks, generally of a catastrophic nature such as from war or environmental contamination, however, are either uninsurable or not economically insurable.

Our properties are currently insured against acts of terrorism, subject to policy limits and deductibles and subject to exceptions for terrorist acts that constitute acts of war. Although we expect that the cost of insurance covering terrorist acts will increase significantly in light of the September 2001 terrorist attacks in New York and Washington, D.C., we believe that we will be able to maintain insurance coverage for terrorist acts with our current insurers until at least December 2002 and that we will be able to pass a substantial portion of any increased costs on to tenants through increased rents. We cannot assure you, however, that insurance coverage for acts of terrorism will continue to be available on commercially acceptable terms or that we will be able to pass on a significant portion of any cost increases. In addition, we cannot assure you that our insurers will be able to maintain reinsurance sufficient to cover any losses that may be incurred as a result of terrorist acts.

We currently have insurance for earthquake risks, subject to certain policy limits and deductibles, and will continue to carry such insurance if it is economical to do so. We cannot assure you that earthquakes may not seriously damage our properties, several of which are located in California, historically an earthquake-prone area, and that the recoverable amount of insurance proceeds will be sufficient to fully cover reconstruction costs and losses suffered. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated income and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

Additionally, although we generally obtain owner's title insurance policies with respect to our properties, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated income and cash flows from, that property.

We do not have sole control over the properties that we hold with co-venturers or partners or over the revenues and certain decisions associated with those properties

We participate in nine office joint ventures or partnerships. The office properties that we own through joint ventures or partnerships total approximately 7.6 million square feet, with our ownership interest totaling 3.6 million square feet. We also own a hotel in a joint venture. A joint venture or partnership involves risks, including the risk that a co-venturer or partner:

- may have economic or business interests or goals that are inconsistent with our economic or business interests or goals;
- may take actions contrary to our instructions or requests, or contrary to our policies or objectives with respect to our real estate investments; and
- may have to give its consent with respect to certain major decisions, including the decision to distribute cash, refinance a property or sell a property.

We do not have sole control of certain major decisions relating to the properties in which we have less than a 100% interest, including decisions relating to:

- the sale of the properties;

- refinancing;
- timing and amount of distributions of cash from such properties to us;
- capital improvements; and
- calling for capital contributions.

In some instances, although we are the property manager for a joint venture, the other joint venturer retains approval rights over specific leases or our leasing plan. In addition, the sale or transfer of interests in some of our joint ventures and partnerships is subject to rights of first refusal or first offer and some joint venture and partnership agreements provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not want to sell but may be forced to do so because we may not have the financial resources at that time to purchase the other party's interest. Such rights may also inhibit our ability to sell our interest in a property or a joint venture or partnership within our desired time frame or on any other desired basis.

Our historical financial information may not be representative of our financial position, operating results and cash flows as a separate company

Our combined consolidated financial statements have been carved out from the consolidated financial statements of TrizecHahn Corporation using the historical operating results and historical bases of the assets and liabilities of the businesses that we comprise. Accordingly, the historical financial information that we have included in this Form 10-K does not necessarily reflect what our financial position, operating results and cash flows would have been had we been a separate, stand-alone public entity during the periods presented.

TrizecHahn Corporation did account for us, and we operated, as separate, stand-alone entities for the periods presented. Our costs and expenses include payments made to TrizecHahn Corporation for direct reimbursement of third-party purchased services and a portion of salaries, for certain employees, for direct services rendered. We consider these charges to be reasonable reflections of the use of services provided to us or the benefit that we received.

Our historical financial information is not necessarily indicative of what our operating results, financial position and cash flows will be in the future. We have not made adjustments to our historical financial information to reflect changes that will occur in our cost structure as a result of the corporate reorganization, including increased costs associated with being a publicly traded, stand-alone company. These incremental costs will include, but are not limited to, additional senior management compensation expense, to supplement the existing management team, and internal and external public company corporate compliance costs.

Our failure to qualify as a REIT would decrease the funds available for distribution to our stockholders and adversely affect the market price of our common stock

Determination of REIT status is highly technical and complex. Even a technical or inadvertent mistake could endanger our REIT status. The determination that we qualify as a REIT requires an analysis of various factual matters and circumstances that may not be within our control. For example, the Internal Revenue Service, or IRS, could change tax laws and regulations or the courts may issue new rulings that make it impossible for us to maintain REIT status. We do not believe that any pending or proposed law changes could change our REIT status.

If we fail to qualify for taxation as a REIT in any taxable year:

- we will be subject to tax on our taxable income at regular corporate rates;
- we will not be able to deduct, and will not be required to make, distributions to stockholders in any year in which we fail to qualify as a REIT; and
- unless we are entitled to relief under specific statutory provisions, we will be disqualified from taxation as a REIT for the four taxable years following the year during which we lost our qualification.

The consequences of failing to qualify as a REIT would adversely affect the market price of our common stock.

Shearman & Sterling, our special counsel, has given us an opinion to the effect that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code of 1986, as amended, and that our proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT. Our special counsel's opinion is based on assumptions and factual representations made by us regarding our ability to meet the requirements for qualification as a REIT and is not binding on the IRS or any court. Moreover, our special counsel does not review or monitor our compliance with the requirements for REIT qualification on an ongoing basis. We cannot guarantee that we will be qualified and taxed as a REIT because our qualification and taxation as a REIT will depend upon our ability to meet the requirements imposed under the Internal Revenue Code of 1986, as amended, on an ongoing basis.

In order to maintain our status as a REIT, we may be forced to borrow funds during unfavorable market conditions

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. This requirement limits our ability to accumulate capital. We may not have sufficient cash or other liquid assets to meet REIT distribution requirements. As a result, we may need to incur debt to fund required distributions when prevailing market conditions are not favorable. Difficulties in meeting distribution requirements may arise as a result of:

- differences in timing between when we must recognize income for U.S. federal income tax purposes and when we actually receive income;
- the effect of non-deductible capital expenditures;
- the creation of reserves; or
- required debt or amortization payments.

If we are unable to borrow funds on favorable terms, our ability to make distributions to our stockholders and our ability to qualify as a REIT may suffer.

Risks Relating to Our Capital Stock

Our common stock has not traded publicly, and the market price of our common stock and exchange certificates may decline

Prior to the corporate reorganization, there has not been a public market for our common stock. We cannot assure you that the market price of our common stock will remain at or above its initial market price. In addition, each of our exchange certificates will represent one share of underlying common stock. The value of our exchange certificates therefore will depend on the market price of our common stock. If the market price of our common stock declines, you may lose all or part of your investment in our common stock or exchange certificates.

An ownership limitation in our certificate of incorporation may adversely affect the market price of our common stock

Our certificate of incorporation contains an ownership limitation that is designed to enable us to qualify as a "domestically-controlled REIT" within the meaning of Section 897(h)(4)(B) of the Internal Revenue Code of 1986, as amended. This limitation restricts any person that is not a qualifying U.S. person from beneficially owning our capital stock if that person's holdings, when aggregated with shares of our capital stock beneficially owned by all other persons that are not qualifying U.S. persons, would exceed 45% by value of our issued and outstanding capital stock.

As a result of our enforcement of this ownership limitation, persons other than qualifying U.S. persons will be effectively excluded from the market for our common stock. The inability of holders of our common stock to sell

their shares to persons other than qualifying U.S. persons, or the perception of this inability, may adversely affect the market price of our common stock.

Higher market interest rates may adversely affect the market price of our common stock

One of the factors that investors may consider important in deciding whether to buy or sell shares of a real estate investment trust is the dividend with respect to such real estate investment trust's shares as a percentage of the price of those shares, relative to market interest rates. If market interest rates go up, prospective purchasers of shares of our common stock may require a higher yield on our common stock. Higher market interest rates would not, however, result in more funds for us to distribute and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to go down.

If a large number of exchange certificates are delivered in the corporate reorganization, the market price of our common stock may be adversely affected over the short term

In connection with the corporate reorganization, TrizecHahn Corporation shareholders who do not certify that they are qualifying U.S. persons may receive exchange certificates representing underlying shares of our common stock, which a custodian will hold for their benefit. During the three-month period after the exchange certificates are first delivered, they will be exchangeable for underlying shares of common stock on a one-for-one basis on the condition that the exchange certificate holder provides us with certification that it is a qualifying U.S. person. The exchange certificates will be freely transferable. Any exchange certificates that remain unexchanged at the end of the three-month exchange period will expire, and a third-party market agent will automatically sell the underlying shares of common stock within five trading days on the open market to qualifying U.S. persons on behalf of the exchange certificate holders.

If a large number of exchange certificates are delivered in the corporate reorganization to initial holders that cannot certify qualifying U.S. person status, there may be significant sales of exchange certificates during the three-month exchange period, which may adversely affect the market price of our common stock over this period. Should a large number of exchange certificates remain unexchanged at the end of the three-month exchange period, the custodian will be required to sell a large number of underlying shares of our common stock in a short time period, which may also adversely affect the market price of our common stock.

As long as P.M. Capital Inc., a corporation controlled by Peter Munk, maintains its ownership interest in Trizec Canada Inc., Peter Munk will control the election of members of our board of directors until January 1, 2008 and may exercise his voting power in a manner adverse to you

Peter Munk, the Chairman of TrizecHahn Corporation, controls P.M. Capital Inc. After the completion of the corporate reorganization, P.M. Capital, through its ownership of Trizec Canada Inc.'s multiple voting shares, will have a majority of the votes in elections of Trizec Canada Inc.'s board of directors and on other matters to be voted on by Trizec Canada Inc. shareholders. Trizec Canada Inc., through its indirect ownership of our common stock and special voting stock, will have a majority of the votes in elections of our board of directors until January 1, 2008, provided that Trizec Canada Inc. or its subsidiaries hold our special voting stock until such time. Peter Munk's effective control of Trizec Canada Inc. will therefore enable him to elect our entire board of directors and to exercise a controlling influence over our business and affairs. Although a nominating committee composed of independent members of our board of directors will nominate candidates for election to our board, Peter Munk may exercise his control over us to elect alternative candidates or to replace our board of directors at any time. Peter Munk may exercise his controlling influence over our business and affairs in a manner that is adverse to you.

The sale or availability for sale of approximately 60 million shares of our common stock expected to be owned indirectly by Trizec Canada Inc. upon the completion of the corporate reorganization or shares of our common stock that may be issued thereafter could adversely affect the market price of our common stock and exchange certificates

On completion of the corporate reorganization, we anticipate that approximately 150 million shares of our common stock will be outstanding. Of those shares, approximately 60% will be held by qualifying U.S. persons, and the remaining approximately 40% will be held by Trizec Canada Inc. indirectly through a wholly owned Hungarian subsidiary. Dispositions of this 40% of our common stock may occur in the following circumstances:

- Trizec Canada Inc. shareholders will have the right to redeem their shares from time to time, and Trizec Canada Inc. will have the option of satisfying these redemptions with shares of our common stock held by the Hungarian subsidiary.
- The Hungarian subsidiary will pledge as collateral for a secured credit facility all shares of our common stock that it holds, and in the event of a default the pledgee under that facility may realize on the pledge and sell the shares.
- Trizec Canada Inc. may cause the Hungarian subsidiary to dispose of some or all of the shares of our common stock held by the Hungarian subsidiary at any time for any reason.

To permit market sales of our common stock in the circumstances described above, including by subsequent holders, we intend to register all such common stock under the Securities Act of 1933, as amended.

After completion of the corporate reorganization, we may issue additional shares of our common stock:

- upon exercises of our stock options and warrants; and
- upon conversions of our Class F convertible stock; for additional information on the conversion of our Class F convertible stock, see “ – The issuance of additional shares of our common stock pursuant to the terms of our Class F convertible stock may dilute your interest in our company and adversely affect the market price of our common stock” below.

We expect to register all of these shares of our common stock under the Securities Act of 1933.

We cannot predict what effect, if any, market sales of shares of our common stock held indirectly by Trizec Canada Inc. or issued upon exercises of our stock options or warrants or upon conversions of our Class F convertible stock would have on the market price of our common stock and exchange certificates. We are also unable to predict what effect, if any, the availability of any of these shares for future sale may have on the market price of our common stock and exchange certificates. Future sales of substantial amounts of our common stock, or the perception that these sales could occur, may adversely affect the market price of our common stock and exchange certificates.

Limits on changes of control may discourage takeover attempts that may be beneficial to holders of our common stock

Provisions of our certificate of incorporation and bylaws, as well as provisions of the Internal Revenue Code of 1986, as amended, and Delaware corporate law, may:

- delay or prevent a change of control over us or a tender offer for our common stock, even if those actions might be beneficial to holders of our common stock; and
- limit our stockholders’ opportunity to receive a potential premium for their shares of common stock over then-prevailing market prices.

For example, primarily to facilitate the maintenance of our qualification as a REIT, our certificate of incorporation generally prohibits ownership, directly or indirectly, by any single stockholder of more than 9.9% of the value of outstanding shares of our capital stock. Our board of directors may modify or waive the application of this ownership limit with respect to one or more persons if it receives a ruling from the Internal Revenue Service or an opinion of counsel concluding that ownership in excess of this limit will not jeopardize our status as a REIT. The ownership limit, however, may nevertheless have the effect of inhibiting or impeding a change of control over us or a tender offer for our common stock.

An anticipated increase in non-Canadian taxes applicable to dividends that we pay to a Hungarian subsidiary of Trizec Canada Inc. may decrease the amount of funds we have available for distribution as dividends on our common stock

On completion of the corporate reorganization, Trizec Canada Inc. will own approximately 40% of our common stock indirectly through a wholly owned Hungarian subsidiary that is currently an indirect, wholly owned subsidiary of TrizecHahn Corporation. The Hungarian subsidiary and its shareholders will be subject to non-Canadian taxes, expected to be only U.S. and Hungarian cross-border withholding taxes, in respect of dividends paid by us and by the Hungarian subsidiary.

The Hungarian subsidiary currently holds and, on completion of the corporate reorganization, will hold all of our special voting stock. As the holder of this stock, the Hungarian subsidiary is entitled to dividends from us that, when aggregated with dividends received by the Hungarian subsidiary on our common stock and after deducting related non-Canadian taxes, will equal the dividends received by our U.S. stockholders on our common stock on a per share basis. Dividends on our special voting stock will be payable only in connection with common stock dividends paid within 66 months after the effective date of the corporate reorganization.

The U.S.-Hungary income tax treaty generally provides for a reduced rate of U.S. cross-border withholding taxes applicable to dividends paid by us to the Hungarian subsidiary. The income tax treaty is currently being renegotiated. We expect that as a result of the renegotiation, the effective rate of non-Canadian taxes required to be paid on the aforementioned common stock and special voting stock dividends will increase from approximately 10% to approximately 30%. We do not presently know how long the renegotiation process will take. If, however, an increased tax rate took effect at any time prior to the expiration of the dividend right on our special voting stock, any dividends paid on our special voting stock would increase, thereby decreasing the amount of funds available for distribution as dividends on our common stock.

The issuance of additional shares of our common stock pursuant to the terms of our Class F convertible stock may dilute your interest in our company and adversely affect the market price of our common stock

In general, a foreign corporation disposing of a U.S. real property interest, including shares of U.S. corporations whose principal assets are U.S. real estate, is subject to a tax, known as FIRPTA tax, equal to 35% of the gain recognized on the disposition of that property interest. If, however, the interest being disposed of is an interest in a REIT that qualifies as a “domestically-controlled REIT” within the meaning of Section 897(h)(4)(B) of the Internal Revenue Code of 1986, as amended, no FIRPTA tax is payable. Whether we will qualify as a “domestically -controlled REIT” on any date will depend on our ability to demonstrate that less than 50% of our capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on that date.

If TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries incur FIRPTA tax and any related costs, interest and penalties in connection with:

- the corporate reorganization, or
- specified future transactions or events that allow for the conversion of our Class F convertible stock into common stock, including:
 - dispositions of our common stock in connection with major corporate transactions or events, such as mergers, requiring the approval of a specified portion of our common stockholders or the tendering of a specified portion of our common stock to effect those transactions or events, and
 - transactions or events after the end of the five-year period required for our qualification as a “domestically -controlled REIT,”

our Class F convertible stock will be convertible into shares of our common stock in the manner prescribed by our certificate of incorporation. The indirect, wholly owned Hungarian subsidiary of TrizecHahn Corporation that, after the corporate reorganization, will be an indirect, wholly owned subsidiary of Trizec Canada Inc. holds all of our Class F convertible stock.

We believe that none of TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries should incur a material amount of FIRPTA tax in connection with any of the transfers made as part of the corporate reorganization. We cannot assure you, however, that no material amount of FIRPTA tax would be payable.

We are not currently planning to undertake any transactions or events after the corporate reorganization that would allow for the conversion of our Class F convertible stock, including any transactions or events requiring the approval of a specified portion of our common stockholders or the tendering of a specified portion of our common stock to effect those transactions or events. We cannot assure you, however, that any of those transactions or events will not take place during the five-year period required for our qualification as a “domestically-controlled REIT.” If any such transactions or events were to take place at such time, Trizec Canada Inc. or its subsidiaries might incur at least some amount of FIRPTA tax. Furthermore, the existence of our Class F Convertible Stock may have the effect of inhibiting or impeding a change of control over us or a tender offer for our common stock.

We believe that after the end of the five-year period required for our qualification as a “domestically-controlled REIT,” neither Trizec Canada Inc. nor its subsidiaries should incur a material amount of FIRPTA tax under circumstances that would allow the holder of our Class F convertible stock to exercise its conversion right. Based on all of the facts and circumstances, we believe that 63 months after the effective date of the corporate reorganization we will be able to demonstrate that during the relevant time period less than 50% of our capital stock, by value, was owned directly or indirectly by persons who were not qualifying U.S. persons and that, as a result, we will then qualify as a “domestically-controlled REIT.”

Our certificate of incorporation and corporate policies are designed to enable us to qualify as a “domestically-controlled REIT” as planned. The ownership restrictions relating to non-U.S. persons in our certificate of incorporation will prohibit ownership by persons if such ownership would cause us to violate the requirements for being a “domestically-controlled REIT.” We believe these provisions will be effective, although certainty in this regard is not possible. Legislative developments during the relevant five-year qualification period could also affect our ability to qualify as a “domestically-controlled REIT.” Therefore, we cannot assure you that we will become a “domestically-controlled REIT” 63 months after the effective date of the corporate reorganization.

If any of TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries incur FIRPTA tax in connection with the circumstances discussed above, our Class F convertible stock will be convertible into additional shares of our common stock. If we are required to issue additional shares of our common stock pursuant to the terms of our Class F convertible stock, all shares of our common stock, including those held indirectly by Trizec Canada Inc., would suffer immediate dilution. In addition, the sale of our common stock by Trizec Canada Inc. or its subsidiaries to fund the payment of FIRPTA tax in the circumstances discussed above may adversely affect the market price of our common stock.

THE TRIZECHAHN CORPORATE REORGANIZATION

Overview

We are an indirect, substantially wholly owned subsidiary of TrizecHahn Corporation and expect to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes effective as of January 2001. TrizecHahn Corporation is currently proposing a corporate reorganization. As a result of this reorganization, we expect to become a publicly traded REIT and to own all of the U.S. assets that TrizecHahn Corporation and its subsidiaries currently own. Also pursuant to this reorganization, we expect that TrizecHahn Corporation will become an indirect, wholly owned subsidiary of Trizec Canada Inc., a company incorporated under the *Canada Business Corporations Act*.

TrizecHahn Corporation is pursuing the corporate reorganization to remove the structural impediments that are currently negatively affecting market recognition of the value of the business of our company. Specifically, this reorganization is designed to create a publicly traded REIT while reducing withholding tax liabilities and minimizing any current recognition of potential tax liabilities on unrealized appreciation in value that are present in TrizecHahn Corporation’s current ownership structure. The corporate reorganization is also intended to create economic equivalence between a share of our common stock and a Trizec Canada Inc. subordinate voting share or multiple voting share.

At the time of the completion of the corporate reorganization, we expect that former holders of TrizecHahn Corporation subordinate voting shares will own approximately 60% of our common stock, some of which may be represented by exchange certificates, and that Trizec Canada Inc. will own indirectly through its subsidiaries the remaining approximately 40% of our common stock. In addition to owning shares of our common stock, Trizec Canada Inc., indirectly through its subsidiaries, will own all shares of our Class F convertible stock and special voting stock.

Trizec Canada Inc.'s ownership of our Class F convertible stock and special voting stock is intended to maintain the economic equivalence described above. The Class F convertible stock is convertible into our common stock in certain tax-related circumstances described below so that Trizec Canada Inc. and its subsidiaries, on the one hand, and our other stockholders, on the other hand, may share ratably certain future taxes that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries may incur. In addition, to address certain non-Canadian tax liabilities of Trizec Canada Inc.'s indirect, wholly owned Hungarian subsidiary and its direct and indirect shareholders, Trizec Canada Inc. will receive, directly or indirectly, dividends on our special voting stock. These components of our capital structure are not typical of other publicly traded REITs. As a result of this capital structure, conversions of our Class F convertible stock may dilute your interest in our company and dividends on our special voting stock will reduce the funds available for dividends on our common stock.

Our special voting stock also entitles its holder to votes that, when aggregated with votes of shares of common stock held by Trizec Canada Inc. or its subsidiaries, represent a majority of the votes in elections of our board of directors. As a result of the special voting right, provided that Trizec Canada Inc. holds at least 5% of our common stock, Trizec Canada Inc. and its majority shareholder will have voting control over the election of our directors, even though Trizec Canada Inc. will not own a majority of our common stock. This special voting right will expire on January 1, 2008.

TrizecHahn Corporation plans to effect the corporate reorganization pursuant to a plan of arrangement, which we expect will become effective in the second quarter of 2002. The plan of arrangement will require the approval of the Ontario Superior Court of Justice and of TrizecHahn Corporation's shareholders, including:

- a majority of the votes cast by TrizecHahn Corporation's shareholders that are qualifying U.S. persons, voting as a class on a one vote per share basis;
- a majority of the votes cast by TrizecHahn Corporation's other shareholders, voting as a class on a one vote per share basis; and
- a 66 2/3% majority of all votes cast by TrizecHahn Corporation's shareholders, and for the purposes of this vote TrizecHahn Corporation's multiple voting shares, in accordance with their terms, will be entitled to a simple majority of the votes.

If the plan of arrangement receives the requisite court and shareholder approvals, holders of TrizecHahn Corporation's subordinate voting shares will exchange their shares on a one-for-one basis for one or more of the following securities:

- shares of our common stock;
- exchange certificates representing underlying shares of our common stock; or
- Trizec Canada Inc. subordinate voting shares.

Generally, holders of TrizecHahn Corporation subordinate voting shares who are qualifying U.S. persons will receive shares of our common stock and all other holders of TrizecHahn Corporation subordinate voting shares will receive Trizec Canada Inc. subordinate voting shares in exchange for their TrizecHahn Corporation shares. The holder of TrizecHahn Corporation multiple voting shares will exchange them for Trizec Canada Inc. multiple voting shares in the corporate reorganization.

Based on our understanding of the current composition of TrizecHahn Corporation's shareholder base, we anticipate that qualifying U.S. persons will hold approximately 50% - 55% of outstanding TrizecHahn Corporation

2002 Trizec Properties, Inc. Stock Option Plan” in this Form 10-K.

Additionally, to preserve the economic equivalence between one share of our common stock and one Trizec Canada Inc. subordinate voting share, Trizec Canada Inc. or a wholly owned subsidiary of Trizec Canada Inc. will receive warrants to purchase one share of our common stock for each Trizec Canada Inc. option issued in the corporate reorganization.

Warrants to purchase our shares granted to former TrizecHahn Corporation option holders, as well as to Trizec Canada Inc. as described above, will have a fixed term that is not contingent on continued service with us or Trizec Canada Inc. as an employee, officer or director. The warrants will be freely transferable and fully vested and exercisable.

Class F Convertible Stock

FIRPTA tax is a U.S. tax generally imposed at a rate of 35% on capital gains realized by foreign corporations who dispose of, among other things, shares of U.S. corporations whose principal assets are U.S. real estate. In order that Trizec Canada Inc. and its subsidiaries, on the one hand, and our other stockholders, on the other hand, may share ratably the potential FIRPTA tax that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries may incur in connection with the corporate reorganization or limited future transactions or events, we have issued Class F convertible stock to an indirect, wholly owned Hungarian subsidiary of TrizecHahn Corporation that, after the corporate reorganization, will be an indirect, wholly owned subsidiary of Trizec Canada Inc.

The shares of Class F convertible stock are convertible into shares of our common stock having an after-tax value equal to any FIRPTA tax that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries may incur in connection with the corporate reorganization, specified major corporate transactions entered into within 66 months after the effective date of the corporate reorganization and specified transactions or events following the 63rd month after the corporate reorganization. Based on all of the facts and circumstances, however, we do not expect that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries will incur a material amount of FIRPTA tax in connection with any of the transfers made as part of the corporate reorganization. Furthermore, we are not currently planning to undertake any transactions or events after the corporate reorganization that would allow for the conversion of our Class F convertible stock. Additionally, in most circumstances, a sale of shares of our common stock by Trizec Canada Inc. or its subsidiaries in the 63-month period following the corporate reorganization will not entitle a holder to convert any shares of Class F convertible stock into shares of our common stock.

No FIRPTA tax is imposed on transfers and distributions of interests in a “domestically-controlled REIT.” In order that we may be in a position to attain “domestically-controlled REIT” status, only TrizecHahn Corporation shareholders who certify that they are qualifying U.S. persons will receive shares of our common stock in the corporate reorganization. In addition, our certificate of incorporation and corporate policies will be designed to enable us to qualify as a U.S. “domestically-controlled REIT.” Based on all of the facts and circumstances, we expect to qualify as a “domestically-controlled REIT” 63 months after the effective date of the corporate reorganization. If, however, we fail to qualify as a “domestically-controlled REIT,” Trizec Canada Inc. or its subsidiaries will be liable for FIRPTA tax on subsequent dispositions of our common stock. In such event, the Hungarian subsidiary or any subsequent holder may be entitled to convert its shares of Class F convertible stock into our common stock.

If the Hungarian subsidiary or any subsequent holder exercises the right to convert any of its shares of the Class F convertible stock into common stock, all shares of our common stock, including those held indirectly by Trizec Canada Inc., will be diluted on a pro rata basis and the market price of our common stock may decline. For additional information, see “Risk Factors The issuance of additional shares of our common stock pursuant to the terms of our Class F convertible stock may dilute your interest in our company and adversely affect the market price of our common stock” and “– The sale or availability for sale of approximately 60 million shares of our common stock expected to be owned indirectly by Trizec Canada Inc. upon the completion of the corporate reorganization or shares of our common stock that may be issued thereafter could adversely affect the market price of our common stock and exchange certificates” in this Form 10-K.

Special Voting Stock

To maintain our REIT status, we generally will be required to distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. Any dividends that we pay to our stockholders who are foreign persons, however, will be subject to cross-border withholding taxes. Currently, all of TrizecHahn Corporation’s shareholders bear the burden of cross-border withholding taxes on dividends that we pay because currently TrizecHahn Corporation indirectly owns all of our company.

On completion of the corporate reorganization, dividends on the approximately 60% of our common stock held by qualifying U.S. persons will no longer be subject to the above-described cross-border withholding taxes. However, because Trizec Canada Inc. will indirectly hold approximately 40% of our common stock on completion of the corporate reorganization through its wholly owned Hungarian subsidiary, dividends that we pay to this subsidiary and dividends that the subsidiary pays to its shareholders will continue to be subject to non-Canadian taxes, expected to be only cross-border withholding taxes. The U.S.-Hungary income tax treaty generally provides for a reduced rate of cross-border withholding taxes applicable to dividends paid by us to Trizec Canada Inc.’s Hungarian subsidiary. The income tax treaty is currently being renegotiated. We expect that as a result of the renegotiation, the effective rate of non-Canadian taxes will ultimately increase from approximately 10% to approximately 30%.

On completion of the corporate reorganization, Trizec Canada Inc.’s Hungarian subsidiary will hold one share of our common stock for each outstanding Trizec Canada Inc. share. An objective of the corporate reorganization is to create economic equivalence between our common stock and Trizec Canada Inc. shares. To help achieve this objective, Trizec Canada Inc.’s Hungarian subsidiary, as the holder of our special voting stock, will be entitled to dividends from us that, when aggregated with dividends received by the Hungarian subsidiary on our common stock and after deducting related non-Canadian taxes, will equal the dividends received by our U.S.

stockholders on our common stock on a per share basis. Dividends on our special voting stock will be payable only in connection with common stock dividends paid within 66 months after the effective date of the corporate reorganization.

In addition to providing the dividend right discussed above, our special voting stock entitles its holder to votes that, when aggregated with votes of shares of our common stock held by Trizec Canada Inc. or its subsidiaries, represent a majority of the votes in elections of our board of directors. This special voting right will expire on January 1, 2008. The special voting stock does not entitle its holder to voting rights with respect to any other matters, except as required by Delaware corporate law. By holding the special voting stock indirectly through its Hungarian subsidiary and maintaining this voting structure, Trizec Canada Inc. will continue TrizecHahn Corporation's present primary business activity as a real estate management company and avoid being inadvertently viewed as an "investment company" for purposes of the Investment Company Act of 1940, as amended. That act imposes restrictions on an investment company that are incompatible with Trizec Canada Inc.'s and our continuing operations. For example, if we were to consider combining with another REIT, the combination would likely require a vote or some other investment decision by Trizec Canada Inc.'s shareholders that could constitute a U.S. public offering by Trizec Canada Inc. If Trizec Canada Inc. were an "investment company" for purposes of the Investment Company Act, it could not conduct that "offering." Furthermore, the partner in any such combination could be expected to require a legal opinion that Trizec Canada Inc. is not an "investment company."

Additional Pre-Reorganization Transactions

Under "Item 6. Selected Financial Data - Unaudited Pro Forma Condensed Combined Consolidated Financial Data" in this Form 10-K, we have identified and given pro forma effect to transactions that we have undertaken since December 31, 2001 in connection with the corporate reorganization. We have also identified and given pro forma effect to additional transactions that we have not yet undertaken, but that we plan to consummate in connection with the corporate reorganization prior to the effective date thereof. These transactions include TrizecHahn Corporation's transfer to us of its operating property located at 151 Front Street, Toronto, Ontario.

Additionally, TrizecHahn Corporation has been negotiating for some time with Chelsfield plc to sell to Chelsfield plc all of TrizecHahn Corporation's interest in Global Switch S.à.r.l. The sale of such interest is expected to be for ordinary shares of Chelsfield plc, a UK real estate company whose shares are listed on the London stock exchange or, at Chelsfield plc's option, for cash payable in 2003. In connection with the negotiation of the sale transaction, TrizecHahn Corporation agreed to advance to Chelsfield plc up to £25 million by way of an unsecured loan to be used to provide working capital for the Global Switch S.à.r.l. business and the buyout of the approximately 17% interest of another shareholder of Global Switch S.à.r.l. The £25 million unsecured loan is repayable in cash on June 28, 2002 or, in Chelsfield plc ordinary shares, if Chelsfield plc elects to acquire TrizecHahn Corporation's Global Switch S.à.r.l. interest for Chelsfield plc ordinary shares. Based on assurances given by Chelsfield plc's chairman, TrizecHahn Corporation expects to complete a sale of its interest in Global Switch S.à.r.l. prior to the effective date of the corporate reorganization. On March 4, 2002 we advanced to TrizecHahn Corporation £25 million (\$35.6 million) to fund its loan to Chelsfield plc. TrizecHahn Corporation will transfer to us any shares of Chelsfield plc or amounts receivable from Chelsfield plc as part of these transactions prior to the effective date of the corporate reorganization.

Capitalization

The following table shows our total capitalization on an actual basis as at December 31, 2001 and on a pro forma basis to reflect the transactions described in Note 1 to our unaudited pro forma condensed combined consolidated balance sheet appearing in this Form 10-K under the heading “Unaudited Pro Forma Condensed Combined Consolidated Financial Data.”

This table should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

	<u>As at December 31, 2001</u>	
	<u>Actual</u>	<u>Pro Forma (unaudited)</u>
	<u>(in thousands)</u>	
Mortgage debt and other loans	\$ 3,017,798	\$ 3,233,298
Redeemable Stock		
Special voting stock, par value \$0.01 per share; 100 shares authorized, actual and pro forma; 100 shares issued and outstanding, actual and pro forma.	100	100
Class F convertible stock, par value \$0.01 per share; 100,000 shares authorized, actual and pro forma; 100,000 shares issued and outstanding, actual and pro forma.....	100	100
	200	200
Owners’ equity:		
Common stock, par value \$0.01 per share; 200,000,000 shares authorized, actual; 500,000,000 shares authorized, pro forma; 38,220,000 shares issued and outstanding, actual; 149,543,948 shares issued and outstanding, pro forma (1).....	382	1,495
Series B convertible preferred stock, par value \$1.00 per share; 1,100,000 shares authorized, actual and pro forma; 1,100,000 shares issued and outstanding, actual; no shares issued and outstanding, pro forma.....	1,100,000	-
Class C convertible preferred stock, par value \$1.00 per share; 750,000 authorized, actual and pro forma; 376,504 shares issued and outstanding, actual; no shares issued and outstanding, pro forma	414,154	-
Warrants	-	20,890
Additional paid -in capital.....	922,844	2,055,110
Retained earnings (deficit).....	6,514	3,749
Unearned compensation	(6,701)	(9,265)
Accumulated other comprehensive income (loss).....	(1,818)	(1,818)
Total owners’ equity	2,435,375	2,070,161
Total capitalization	\$ 5,453,373	\$5,303,659

- (1) Excludes (a) approximately 8.6 million shares of common stock issuable upon the exercise of vested and unvested options expected to be outstanding on the effective date of the corporate reorganization; and (b) approximately 8.7 million shares of common stock issuable upon the exercise of warrants expected to be issued on the effective date of the corporate reorganization.

Item 2. Properties

OVERVIEW

Office Property Portfolio

The supply of, and demand for, office space affect the performance of our office property portfolio. Macroeconomic conditions, such as current and expected economic trends, business and consumer confidence and employment levels, drive this demand.

Geographic Diversity

Our geographically diversified asset base makes it more likely that we will be able to generate sustainable cash flows throughout the various phases of economic cycles than if we were less diversified. The following table summarizes the major city focus and geographic distribution of our office property portfolio at December 31, 2001.

Office Portfolio Summary (At December 31, 2001)

	No. of Properties	Total Managed Area		Owned Area		POI for the Year Ended December 31, 2001		Occupancy Weighted on Owned Area
		000s sq. ft.	%	000s sq. ft.	%	\$ millions	%	
Core Markets								
Atlanta	6	4,021	8%	4,021	10%	46.0	8%	89.9%
Chicago	5	5,946	12%	2,434	6%	30.8	6%	95.7%
Dallas	6	6,222	13%	5,457	13%	62.5	11%	90.1%
Houston	6	6,580	13%	6,056	15%	73.8	13%	97.1%
Los Angeles Area	6	3,167	7%	2,044	5%	23.3	4%	92.6%
New York Area	7	7,912	16%	6,462	16%	121.2	21%	99.1%
Washington, D.C. Area	22	5,014	11%	5,014	12%	96.3	17%	95.6%
Total Core Markets	58	38,862	80%	31,488	77%	453.9	80%	94.7%
Secondary Markets								
Charlotte	3	1,644	3%	1,644	4%	18.7	4%	95.2%
Minneapolis	2	1,102	2%	1,102	3%	12.7	2%	96.6%
Pittsburgh	1	1,450	3%	1,450	3%	9.9	2%	87.9%
St. Louis	2	1,388	3%	1,388	3%	18.9	3%	90.8%
Other	10	4,416	9%	4,251	10%	50.4	9%	93.1%
Total Secondary Markets	18	10,000	20%	9,835	23%	110.6	20%	92.8%
Total Office Properties	76	48,862	100%	41,323	100%	564.5	100%	94.3%

Our portfolio benefited from its position in CBD office buildings located in major markets, as leases in 2001 expired at an average net rent of approximately \$12.05 per square foot (\$11.91 per square foot on a pro rata basis) and were generally being signed at an average net rent per square foot of approximately \$13.08 (\$12.72 per square foot on a pro rata basis). At December 31, 2001, management's estimates of market rents were on average approximately 25% above in-place rents. In light of weakening market conditions, estimated average market rents were revised downward from \$16.70 per square foot at December 31, 2000 to \$16.00 per square foot at December 31, 2001. The average market rent for space in our buildings is weighted based on our owned area. In-place net rents and market net rents exclude straight-line rent adjustments.

Market vs. In-Place Rental Rates
(At December 31, 2001)

	Average In-place Net Rent	Average Market Net Rent	Average Remaining Lease Term
	(dollars per square foot)	(dollars per square foot)	(years)
Core Markets			
Atlanta	\$ 12.50	\$ 12.30	2.9
Chicago	13.10	16.50	6.2
Dallas	11.00	9.70	4.6
Houston	10.10	13.50	4.1
Los Angeles Area	14.10	14.00	5.7
New York Area	16.50	32.90	8.1
Washington, D.C. Area	16.90	18.30	4.3
Total Core Markets	\$ 13.50	\$ 17.70	5.3
Secondary Markets			
Charlotte	\$ 10.30	\$ 13.20	6.5
Minneapolis	10.20	8.80	2.8
Pittsburgh	6.70	6.30	4.0
St. Louis	13.40	13.70	4.4
Other	11.20	10.90	3.2
Total Secondary Markets	\$ 10.60	\$ 10.70	4.1
Total Office Properties	\$ 12.80	\$ 16.00	5.1

Over the next several years, we plan to concentrate our capital on our core markets and to exit selectively from investments in our secondary markets in an orderly fashion. We expect principally to redeploy proceeds from sales into Class A office buildings in the CBDs of our core markets.

Lease Profile

For our office portfolio, market rents in 2001 were on average approximately 25% above our in-place rents. We expect these market conditions, combined with re-leasing of expiring space shown in the following lease expiration table, to contribute positively to our cash flows in 2002 and future years. Over the next five fiscal years, beginning in 2002, scheduled lease expirations in our office portfolio average approximately 11.5% annually, based on our occupied space at December 31, 2001. The data in the table are based on our owned/occupied area. Expiration net rents exclude straight-line rent adjustments.

Scheduled Annual Expirations of Office Leases

(At December 31, 2001)

	2002 Expirations			2003 Expirations			2004 Expirations			2005 Expirations			2006 Expirations		
	000s sq. ft.	%	\$ psf												
Core Markets															
Atlanta	773	21%	\$11.30	647	18%	\$13.30	448	12%	\$13.60	558	15%	\$14.50	544	15%	\$16.20
Chicago	189	8%	10.30	96	4%	13.10	234	10%	11.50	124	5%	16.00	281	12%	11.00
Dallas	582	12%	9.70	800	16%	11.80	490	10%	13.10	449	9%	12.80	403	8%	11.80
Houston	913	16%	14.60	1,384	24%	8.90	656	11%	10.60	628	11%	9.50	285	5%	12.50
Los Angeles Area	180	10%	11.40	277	15%	18.20	261	14%	14.80	167	9%	16.80	237	13%	13.40
New York Area	235	4%	21.30	420	7%	14.10	821	13%	16.40	444	7%	19.30	231	4%	25.90
Washington, D.C. Area	826	17%	17.87	513	11%	18.40	427	9%	17.50	787	16%	18.80	273	6%	23.10
Total Core Markets	3,698	12%	\$13.93	4,137	14%	\$12.60	3,337	11%	\$14.10	3,157	11%	\$15.20	2,254	8%	\$15.80
Secondary Markets															
Charlotte	114	7%	14.70	127	8%	11.70	108	7%	12.00	239	15%	16.40	222	14%	14.10
Minneapolis	337	32%	9.40	180	17%	8.00	141	13%	7.70	70	7%	15.80	52	5%	12.10
Pittsburgh	201	16%	7.80	236	18%	6.20	149	12%	7.30	86	7%	7.50	109	9%	7.60
St. Louis	69	5%	9.70	104	8%	12.30	192	15%	12.40	213	17%	13.40	35	3%	14.70
Other	743	19%	10.70	957	24%	9.80	358	9%	10.60	398	10%	13.60	465	12%	13.00
Total Secondary Markets	1,464	16%	\$10.30	1,604	18%	\$9.40	948	10%	\$10.20	1,006	11%	\$13.80	883	10%	\$12.60
Total Office Properties	5,162	13%	\$12.90	5,741	15%	\$11.70	4,285	11%	\$13.20	4,163	11%	\$14.90	3,137	8%	\$14.90

Over the last three years, we have leased 23.2 million square feet of new and renewal space. During 2001, we leased 8.0 million square feet as indicated in the following table (7.2 million square feet on a pro rata basis). Occupancy for the entire portfolio based on owned area increased to 94.3% at December 31, 2001 from 94.2% at December 31, 2000.

Office Leasing Activity

	1999	2000	2001
	(thousands of square feet)		
Core Markets			
Atlanta	730	941	1,023
Chicago	193	594	376
Dallas	591	1,130	1,290
Houston	1,256	680	1,126
Los Angeles Area	332	282	750
New York Area	546	787	310
Washington, D.C. Area	959	1,286	741
Total Core Markets	4,607	5,700	5,616
Secondary Markets			
Charlotte	290	377	241
Minneapolis	136	208	92
Pittsburgh	191	268	306
St. Louis	218	111	110
Other	994	901	814
Total Secondary Markets	1,829	1,865	1,563
Total at Pro Rata Ownership	6,436	7,565	7,179
Total at 100% Ownership	7,050	8,170	7,978
Occupancy based on owned area at December 31,	91.4%	94.2%	94.3%

Tenant Diversity

Our diversified tenant base adds to the durability of our future cash flow. The following table summarizes the breadth and diversity of the approximately 2,700 tenants in the portfolio at December 31, 2001.

Industry	% Owned Area
Banking/Securities Brokers	15%
Legal Services	10%
Computers/Communications	9%
Oil & Gas	8%
Insurance/Non-Bank Financial	8%
Miscellaneous Business Services	7%
Wholesalers/Retailers	6%
Engineering/Architectural Services	4%
Government	4%
Health Services	3%

This large tenant base and strong position in key markets allows us to take advantage of economies of scale and drive internal growth in the areas of parking, telecommunications and antennas, specialty retail leasing, signage and branding opportunities, energy and national purchasing contracts.

Our 10 largest tenants accounted for approximately 17% of our POI excluding straight-line rent adjustments for the year ended December 31, 2001. No single tenant accounted for more than 4% of our POI. The following table sets forth information concerning our 10 largest tenants at December 31, 2001.

Top Ten Tenants by POI	% POI	% Owned Area
Prudential Securities	4%	3%
Goldman Sachs	2%	1%
GSA	2%	2%
Enron Corp.	2%	2%
Bank of America	2%	2%
Fried, Frank, Harris	1%	1%
Ernst & Young	1%	1%
Bank One	1%	1%
Entex	1%	1%
Continental Airlines	1%	2%
Total Top Ten Tenants	17%	16%

On December 2, 2001, a group of Enron Corporation companies filed for Chapter 11 reorganization. As indicated above, Enron is our fourth largest tenant contributing 2% of POI and occupying 793,000 square feet, primarily at the Allen Center in Houston, Texas. At December 31, 2001, Enron's average in-place net rents were approximately \$9.30 per square foot, while current estimated market rents for the space are approximately \$14 to \$15 per square foot. At this time, we expect Enron will reject its leases with us. The impact on our property operating income will depend on how quickly we are able to re-lease this space.

Our Top Office Properties

The following table summarizes our top 10 properties based on contribution to our POI for the year ended December 31, 2001. All of the properties in the table are 100% owned unless otherwise indicated.

Top Ten Properties by POI Contribution		% POI	% Owned Area
Allen Center	Houston, TX	8%	8%
One New York Plaza	New York, NY	8%	6%
Galleria Towers I, II & III	Dallas, TX	4%	3%
Newport Tower	Jersey City, NJ	4%	3%
Renaissance Tower	Dallas, TX	3%	4%
The Grace Building (50%)	New York, NY	3%	2%
Continental Center I	Houston, TX	3%	3%
Metropolitan Square	St. Louis, MO	3%	3%
110 William Street	New York, NY	2%	2%
World Apparel Center (50%)	New York, NY	2%	1%
Total Top Ten Properties		40%	35%

Our top five office properties are Allen Center, One New York Plaza, Galleria Towers, Newport Tower and Renaissance Tower. POI for the year ended December 31, 2001 for our top five office properties totaled \$153.6 million, or 27%, of our total U.S. office POI. A description of these five properties is provided below. For information on mortgage indebtedness encumbering these properties, see "Description of Certain Indebtedness" in this Form 10-K.

- *Allen Center.* We acquired Allen Center, located in the central business district of Houston, Texas, in November 1996. For the year ended December 31, 2001, this property contributed 8% to our POI. The complex includes three towers ranging from 34 to 50 stories and comprising approximately 3.2 million square feet of leaseable space. Parking capacity for more than 5,000 cars is available within two parking garages, and additional surface parking is available on the 2.5 acre expansion site. In addition to the office buildings, we own a central plant that distributes chilled air and heated water throughout the complex and to other buildings in the area. Allen Center was 98.4% occupied at December 31, 2001. The largest tenants in the Allen Center are Amerada Hess Corporation with 10% of the total square footage, Equiva Services LLC with 6% and Devon Energy with 6%. Enron Corp has leases for 18% of the total square footage. As previously noted, pursuant to its Chapter 11 reorganization, we expect Enron to reject its leases on this property. The net book value per square foot at December 31, 2001 was \$77.

- *One New York Plaza.* We acquired this premier lower Manhattan property in April 1999. For the year ended December 31, 2001, this property contributed 8% to our POI. Prudential Securities occupies approximately 56% of the total square footage of this 2.5 million-square-foot, 50-story tower. The building's other major tenants are Goldman Sachs with 23% of the total square footage and Fried Frank Harris with 12%. One New York Plaza was 99.6% occupied at December 31, 2001. There has been no disruption to services as a result of the September 2001 terrorist attacks in New York and Washington, D.C. and related circumstances. The net book value per square foot at December 31, 2001 was \$156.
- *Galleria Towers.* We acquired this suburban Dallas office property in January 1999. For the year ended December 31, 2001, this property contributed 4% to our POI. The complex consists of three buildings ranging from 24 to 26 stories and comprising 1.4 million square feet. Federal National Mortgage occupies 8% of the total square footage, Kinko's occupies 8% and Medical Care International occupies 5%. Galleria Towers was 95.4% occupied at December 31, 2001. The net book value per square foot at December 31, 2001 was \$155.
- *Newport Tower.* We acquired this 37-story building in October 1997. For the year ended December 31, 2001, this property contributed 4% to our POI. Newport Tower is located in Jersey City, New Jersey, directly across the Hudson River from downtown Manhattan in an area that is considered a sub-market of the downtown Manhattan market. The property has approximately one million square feet of leaseable area. First Chicago Trust occupies approximately 23% of the total square footage, Brown Brothers Harriman & Co. occupies 15% and Herzog Heine Geduld, Inc. occupies 11%. The building was 99.7% occupied at December 31, 2001. The net book value per square foot at December 31, 2001 was \$143.
- *Renaissance Tower.* We acquired Renaissance Tower, a 56-story office tower located in Dallas, Texas, in December 1995. For the year ended December 31, 2001, this property contributed 3% to our POI. The property has 1.7 million square feet of leaseable area. Major tenants include Blockbuster Videos, Inc., with 15% of total square footage, Southwest Securities, Inc. with 13% and Transamerica Real Estate Tax, with 10%. The property was 88.4% occupied at December 31, 2001. The net book value per square foot at December 31, 2000 was \$65.

Investment in Sears Tower

The Sears Tower, located in Chicago, Illinois, is a 110-story, 3.5 million-square-foot office building that was 93.9% occupied at December 31, 2001. Major tenants include Ernst & Young, Goldman Sachs, Bank of America, Merrill Lynch and Latham & Watkins. The Sears Tower and associated assets are currently owned in a trust for the benefit of an affiliate of Sears, Roebuck and Co.

On December 3, 1997, we purchased a subordinated mortgage together with an option to purchase the Sears Tower for a total of \$70 million and became the residual beneficiary of the trust that owns the Sears Tower. In addition, we assumed responsibility for property management and leasing services.

Our mortgage is subordinate to an existing non-recourse participating first mortgage plus accrued interest and certain obligations. The first mortgage has a principal plus accrued interest balance of \$778.9 million at December 31, 2001. The first mortgage is currently serviced only to the extent of available cash flows from the building. Beginning in 2002, minimum interest payments are required under the first mortgage. The minimum interest payment for 2002 is \$37.5 million and it increases to \$51.9 million for each of 2003 and 2004. The maturity date for the first mortgage is July 2005. In order to retire all amounts secured by the first mortgage, including the lender's participating interest in cash flow, the lender must receive an amount sufficient to provide it with an internal rate of return of 8.6858% on amounts advanced by it. Based on projected cash flows for the Sears Tower, the amount required to provide this required internal rate of return and fully retire the first mortgage at maturity in July 2005 would be approximately \$800 million.

Our subordinated mortgage, which matures in July 2010, has a principal plus accrued interest balance of approximately \$363.1 million at December 31, 2001, and also has participation rights on available cash flow.

The trust that owns the Sears Tower has a scheduled termination date of January 1, 2003. A General Agreement dated November 7, 1994 by and among Sears, a subsidiary of Sears, the holder of the first mortgage on the Sears Tower and certain of our indirect subsidiaries, including Partner Tower, L.P., or PTLP, sets forth Sears's

right to acquire title to the Sears Tower and our subsidiary's option to purchase the building under various circumstances. Pursuant to the General Agreement, at any time prior to 2003, Sears has the right to acquire title to the Sears Tower from the trust in exchange for readily marketable securities having a value equal to the amount, if any, by which the appraised value of the building exceeds the amount of all indebtedness secured by the building.

If Sears acquired the building pursuant to its right of substitution, the trust would immediately terminate and any marketable securities transferred by Sears to the trust would be distributed to our subsidiary, PTLP, as the residual beneficiary. Sears would hold title to the building subject to all indebtedness, including our subordinated mortgage, and subject to our rights under the option. PTLP's option to purchase the building would be exercisable between January 2003 and July 2005 at a price of approximately \$950 million plus 40% of the amount by which the appraised value of the building exceeded \$1,063 million. If PTLP purchased the Sears Tower under the option, the building would be acquired subject to all outstanding indebtedness secured by it, and the amount of this indebtedness would be credited against the purchase price.

If Sears did not exercise its right of substitution, the Sears Tower and the other assets of the trust would be distributed on the scheduled termination date to PTLP as the residual beneficiary and we would assume the participating first mortgage.

For managing and leasing the Sears Tower, we currently earn fees that are funded from pre-debt service cash flows from the building.

Office Development Properties

One Alliance Center in Buckhead, Georgia, a strong sub-market in Atlanta was recently completed in October 2001. This \$100 million, 560,000-square-foot building is the first phase of a four-building complex and at December 31, 2001 was 47% occupied and 75% leased. Major tenants include Security First, Towers Perrin and BBDO South. The remaining three phases of the complex, potentially totaling 1.2 million square feet of office space, would be developed only after substantial pre-leasing is completed.

In addition, we have 5.3 million square feet of office development potential in key U.S. markets, assuming receipt of all necessary permits, licenses and approvals. This office development potential includes approximately 2.8 million square feet adjacent to four of our office buildings in Houston and Dallas and a 600,000-square-foot development site in Rosslyn, Virginia. We will pursue these projects only when customer need is evident and market conditions warrant.

Retail/Entertainment Properties

We are completing the stabilization of three destination-oriented retail/entertainment centers.

- Hollywood & Highland in Los Angeles, California, is a 645,000-square-foot, \$380 million complex, net of \$100 million of municipal financing and contributions. We also developed a \$160 million, 640-room hotel as part of the complex. The complex opened on November 8, 2001. The hotel opened on December 26, 2001. The retail portion of the project was 72% occupied and 88% leased at December 31, 2001.
- Construction is complete at Paseo Colorado, a 565,000-square-foot, \$110 million (net of \$25 million of municipal contributions) mixed-use re-development in Pasadena, California. The project opened on September 28, 2001 and was 84% occupied and 93% leased at December 31, 2001.
- Desert Passage in Las Vegas, Nevada, a 475,000-square-foot, \$290 million retail/entertainment complex within the Aladdin Hotel and Casino complex, opened in August 2000. The project was 74% occupied and 78% leased at December 31, 2001. On March 31, 2001, the Desert Passage project partnership was restructured to facilitate a sale, resulting in our having control over project operations and its disposition, with the minority partner participating only in project distributions, primarily those arising upon disposition of the project.

Our net book value for these properties at December 31, 2001, was approximately \$650 million, on a pro rata ownership basis. In the fourth quarter of 2001, we recorded an allowance for loss related to these properties of \$234 million. Of this amount \$217 million related to the Hollywood & Highland complex and \$17 million related to Desert Passage. This allowance for loss reflects the negative impact of the September 2001 terrorist attacks on tourism, upon which Hollywood & Highland and Desert Passage depend for a significant portion of their visitors. In addition, Desert Passage was impacted by the September 2001 filing of a Chapter 11 reorganization for the Aladdin Hotel and Casino, which is adjacent to Desert Passage and upon which Desert Passage further depends for a significant portion of its visitors.

Consistent with our strategy to focus on the core U.S. office business, we have decided to divest our non-core retail/entertainment assets. Our plan calls for an orderly disposition over the next several years that will allow us to achieve stabilized income in order to realize maximum value upon disposition. Net proceeds will be redeployed into Class A office buildings in the CBDs of our core markets or used to repay debt.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Senior Secured Revolving Credit Facility

We have negotiated a three-year, \$350 million senior unsecured revolving credit facility with a group of banks. In December 2001, \$200 million of the facility was committed and closed with a group of four banks. The remaining \$150 million of the facility has been syndicated to a group of seven banks and closed in early January 2002. The credit facility is available for our general corporate purposes, including dividends and distributions to our stockholders, subject to certain restrictions on our making any such dividends or distributions. Interest will be calculated periodically on the borrowings outstanding under the facility on a variable rate basis using a spread over LIBOR. The spread will be dependent on our total leverage, or, if we obtain an investment-grade credit rating from two rating agencies, on our credit rating. In addition, we must pay to the lenders a fee based on the unused portion of the credit facility.

The amount of the credit facility available to be borrowed at any time is determined by the unencumbered properties that we, or our subsidiaries that guarantee the credit facility, own and that satisfy certain conditions of eligible properties. The amount currently eligible to be borrowed is \$314 million. These conditions are not uncommon for credit facilities of this nature. At December 31, 2001, no amounts were outstanding under this facility.

We are subject to covenants customary for credit facilities of this nature, including financial covenants, restrictions on other indebtedness, restriction on encumbrances of properties that we use in determining our borrowing capacity, and certain customary investment restrictions. Our financial covenants include a restriction on dividends or distributions of more than 90% of our funds from operations. If we are in default in respect of our obligations under the credit facility, dividends shall be limited to the amount necessary to maintain REIT status.

TrizecHahn Office Properties Trust Commercial Mortgage Pass-Through Certificates

In May 2001, we refinanced \$1.16 billion of existing long-term debt through the private placement issuance by a special-purpose vehicle created by one of our subsidiaries of \$1.44 billion of commercial mortgage pass-through certificates. The certificates are backed by mortgages that secure non-recourse loans on 28 of our office properties and have maturities of five, seven and 10 years. At December 31, 2001, the weighted average interest rate on this debt was 4.9%, and it replaced existing debt at 7.1%.

One New York Plaza Trust Commercial Mortgage Pass-Through Certificates

In May 1999, we entered into a non-recourse acquisition loan in the amount of \$245.9 million to fund a portion of the purchase price for One New York Plaza. The loan is secured by a first mortgage on the property, bears an interest rate of 7.27% and matures in May 2006. Subsequently, the loan was securitized through the private issuance of \$245.9 million of commercial mortgage pass-through certificates. The certificates are backed by the non-recourse mortgage loan on the property.

Desert Passage Credit Facility

In May 1998, one of our subsidiaries entered into a loan agreement with a group of banks to finance the construction of Desert Passage. The loan facility is in the total amount of \$194 million, of which \$178.0 million had been drawn as at December 31, 2001. The loan is secured by a mortgage on the property and is also guaranteed by certain of our other subsidiaries. Interest is calculated periodically on a variable rate basis using a spread over LIBOR. The loan matures in May 2003, but may be extended up to May 2005 subject to meeting certain conditions.

Hollywood & Highland Credit Facility

In May 1999, one of our subsidiaries entered into a loan agreement with a group of banks to finance the construction of the retail and entertainment component of the Hollywood & Highland project. The total loan facility is in the amount of \$150 million, of which \$106.8 million had been drawn as at December 31, 2001. The loan is secured by a mortgage on the property and is also guaranteed by TrizecHahn Holdings Ltd., TrizecHahn Office Properties Ltd. and us. We expect that, prior to the time of the corporate reorganization, TrizecHahn Holdings Ltd. and TrizecHahn Office Properties Ltd. will be released under their respective guarantees. Interest is calculated periodically on a variable rate basis using a spread over LIBOR. The loan matures in May 2002, but may be converted to a term loan maturing May 2004 subject to meeting certain conditions.

Hollywood Hotel Credit Facility

In April 2000, one of our subsidiaries entered into a loan agreement with a group of banks to finance the construction of the Hollywood Hotel, of which we currently own 84.5%. The total loan facility is in the amount of \$98 million, of which \$65.6 million had been drawn as of December 31, 2001 at our pro rata share. The loan is secured by a mortgage on the property and is also guaranteed by TrizecHahn Office Properties Ltd. We expect that, prior to the time of the corporate reorganization, we will substitute our company for TrizecHahn Office Properties Ltd. under its guarantee. Interest is calculated periodically on a variable rate basis using a spread over LIBOR. The loan matures in April 2003, but may be extended up to April 2005 subject to meeting certain conditions.

Paseo Colorado Credit Facility

In June 2000, one of our subsidiaries entered into a loan agreement with a group of banks to finance the construction of the Paseo Colorado development. The total loan facility is in the amount of \$88 million, of which \$58.9 million had been drawn as of December 31, 2001. The loan is secured by a mortgage on the property and is also guaranteed by TrizecHahn Office Properties Ltd. and certain of our other subsidiaries. We expect that, prior to the time of the corporate reorganization, we will substitute our company for TrizecHahn Office Properties Ltd. under its guarantee. Interest is calculated periodically on a variable rate basis using a spread over LIBOR. The loan matures in June 2003, but may be extended up to September 2005 subject to meeting certain conditions.

Office Portfolio Mortgage Debt

The following table sets forth information concerning mortgage debt secured by office properties as of December 31, 2001.

Property	F/V (1)	Maturity Date	Current Rate	Principal Balance (\$ mil.)	Term to Maturity (Years)
Renaissance Tower	F	Jan-03	7.32%	\$ 60.1	1.0
Galleria Towers I, II and III	F	May-04	6.79%	137.5	2.4
One New York Plaza	F	May-06	7.27%	240.3	4.3
1065 Ave. of the Americas	F	Dec-04	7.18%	37.9	2.9
10 South Riverside	F	May-11	6.34%	10.5	9.4
120 South Riverside	F	May-11	6.34%	10.5	9.4
Newport Tower	F	Nov-04	7.09%	106.9	2.8
2000 L Street, N.W.	V	Feb-02	4.10%	41.2	0.1
Watergate Office Building	F	Feb-07	8.02%	19.1	5.1
1400 K Street, N.W.	F	May-06	7.20%	22.3	4.3
1250 23rd Street, N.W.	F	Mar-03	8.88%	9.9	1.2
Bethesda Crescent	F	Jan-08	7.10%	34.0	6.0
Bethesda Crescent Ground Lease	F	Jan-08	6.70%	2.8	6.0
Twinbrook Metro Plaza	F	Sep-08	6.65%	17.2	6.7
Goddard Corporate Park	F	May-09	7.00%	15.2	7.3
Two Ballston Plaza	F	Jun-08	6.91%	27.4	6.4
Rosslyn Gateway North	F	May-07	8.00%	11.2	5.3
Rosslyn Gateway South	F	May-02	8.25%	8.3	0.3
Sunrise Tech Park	F	Jan-06	6.75%	23.8	4.0
Bank of America Plaza (Charlotte)	F	Feb-04	7.43%	67.0	2.1
Northstar Center	F	Aug-02	7.75%	14.4	0.7
Gateway Center	F	Sep-10	8.50%	42.3	8.7
Metropolitan Square	F	Jan-08	7.05%	89.2	6.0
250 West Pratt Street	F	Apr-05	6.77%	29.9	3.3
Bank of America Plaza (Columbia)	F	Mar-05	6.90%	21.1	3.2
Esperante Office Building	F	Mar-05	6.52%	23.9	3.2
Franklin Garage	F	May-03	6.85%	26.9	1.3
One Alliance Center	V	Oct-03	3.93%	42.6	1.8
Inner Belt Drive	V	Oct-03	4.38%	15.6	1.8
CMBS Pass-Through Certificates (2)					
Class A-1 FL	V	Apr-06	2.18%	256.6	4.3
Class A-2	F	May-11	6.09%	74.9	9.4
Class A-3 FL	V	Mar-08	2.27%	236.7	6.2
Class A-3	F	Mar-08	6.21%	78.9	6.2
Class A-4	F	May-11	6.53%	240.6	9.4
Class B-1 FL	V	Apr-06	2.32%	47.9	4.3
Class B-3 FL	V	Mar-08	2.42%	43.5	6.2
Class B-3	F	Mar-08	6.36%	14.5	6.2
Class B-4	F	May-11	6.72%	47.0	9.4
Class C-3	F	Mar-08	6.52%	101.4	6.2
Class C-4	F	May-11	6.89%	45.6	9.4
Class D-3	F	Mar-08	6.94%	106.1	6.2
Class D-4	F	May-11	7.28%	40.7	9.4
Class E-3	F	Mar-08	7.25%	73.3	6.2
Class E-4	F	May-11	7.60%	32.3	9.4
			4.88%	1,440.0	6.9
Total Office Mortgage Debt		Pre Swap (3)	5.81%	\$ 2,649.0	5.4

	Pre Swap (3)	Post Swap (3)
Total fixed rate debt:	\$1,956.7	\$ 2,106.7
Total variable rate debt:	\$ 692.3	\$ 542.3
Average rate:	5.81%	6.02%

(1) "F" refers to fixed rate debt, "V" refers to variable rate debt.

(2) Related assets and allocated loan amounts (\$1,440 million): 10 South Riverside (\$47.0), 110 William Street (\$85.0), 120 South Riverside (\$45.5), 1250 Connecticut Avenue (\$29.8), 1550 & 1560 Wilson Boulevard (\$31.0), 2401 Pennsylvania Avenue (\$20.9), Allen Center (\$350.4), Beaumeade Technology Center (\$18.0), Borden Building (\$31.0), Capital Center II & III (\$33.0), Clark Tower (\$31.0), Colony Square (\$72.3), Continental Center I (\$110.3), Continental Center II (\$22.5), Interstate North (\$60.0), Lakeside Center (\$31.0), McKinney Place (\$8.8), Midtown Plaza (\$49.6), Minnesota Center (\$23.0), One Reston Crescent (\$22.0), The Palisades (\$48.8), Park Center I & II (\$8.5), Plaza of the Americas (\$66.2), Reston Unisys (\$24.0), Silver Spring Center (\$15.3), Silver Spring Metro Plaza (\$68.8), Two North LaSalle (\$49.0), Williams Center I & II (\$37.5).

(3) \$150 million of the 7 year floating rate tranche of the CMBS loan has been swapped from one-month LIBOR +0.37% to 6.01% fixed rate.

PROPERTY PORTFOLIO DATA

Office Properties

Operating Properties

The following table sets forth key information as of December 31, 2001 with respect to our operating office properties. The economic interest of our owning entity is 100% unless otherwise noted. The total occupancy rates for the markets and portfolio as a whole in the table are weighted based on owned area.

Name (Ownership)	Location	Year of completion/ renovation	Total area (sq. ft.)	Owned area (sq. ft.)	Occupancy Weighted on Owned Area
Core Markets					
Atlanta					
Interstate North Parkway	Atlanta, GA	1973/84/01	958,000	958,000	87.5%
Colony Square	Atlanta, GA	1970/73/95	827,000	827,000	96.6%
The Palisades	Atlanta, GA	1981/83/99	632,000	632,000	88.7%
Newmarket Business Park	Atlanta, GA	1979/89	591,000	591,000	86.4%
Lakeside Centre	Atlanta, GA	1984/86	509,000	509,000	83.0%
Midtown Plaza	Atlanta, GA	1984/85	504,000	504,000	96.3%
Total – Atlanta	(6 properties)		4,021,000	4,021,000	89.9%
Chicago					
Sears Tower (1)	Chicago, IL	1974	3,512,000	–	93.9%
Two North LaSalle	Chicago, IL	1979	692,000	692,000	97.9%
10 South Riverside	Chicago, IL	1965	685,000	685,000	92.2%
120 South Riverside	Chicago, IL	1967	685,000	685,000	96.9%
550 West Washington	Chicago, IL	2000	372,000	372,000	96.0%
Total – Chicago	(5 properties)		5,946,000	2,434,000	95.7%
Dallas					
Renaissance Tower	Dallas, TX	1974/92	1,731,000	1,731,000	88.4%
Bank One Center (50%)	Dallas, TX	1987	1,530,000	765,000	93.9%
Galleria Towers I, II and III	Dallas, TX	1982/85/91	1,408,000	1,408,000	95.4%
Plaza of the Americas	Dallas, TX	1980	1,150,000	1,150,000	85.7%
Park Central I & II	Dallas, TX	1970/71	262,000	262,000	80.7%
McKinney Place	Dallas, TX	1985	141,000	141,000	91.1%
Total – Dallas	(6 properties)		6,222,000	5,457,000	90.1%
Houston					
Allen Center	Houston, TX	1972/78/80/95	3,184,000	3,184,000	98.4%
Cullen Center					
Continental Center I	Houston, TX	1984	1,110,000	1,110,000	95.1%
Continental Center II	Houston, TX	1971	449,000	449,000	95.6%
M.W. Kellogg Tower (50%)	Houston, TX	1978	1,048,000	524,000	95.3%
500 Jefferson	Houston, TX	1962/83	390,000	390,000	93.3%
3700 Bay Area Blvd	Houston, TX	1986	399,000	399,000	100.0%
Total – Houston	(6 properties)		6,580,000	6,056,000	97.1%
Los Angeles Area					
Ernst & Young Plaza (25%)	Los Angeles, CA	1985	1,252,000	313,000	87.5%
Warner Center	Los Angeles, CA	1980	377,000	377,000	98.6%
Marina Towers (50%)	Los Angeles, CA	1971/76	368,000	184,000	90.0%
9800 La Cienega	Los Angeles, CA	1985	336,000	336,000	85.9%
Landmark Square	Long Beach, CA	1991	451,000	451,000	95.1%
Shoreline Square	Long Beach, CA	1988	383,000	383,000	95.2%
Total – Los Angeles Area	(6 properties)		3,167,000	2,044,000	92.6%
New York Area					
One New York Plaza	New York, NY	1970/95	2,458,000	2,458,000	99.6%

Name (Ownership)	Location	Year of completion/ renovation	Total area (sq. ft.)	Owned area (sq. ft.)	Occupancy Weighted on Owned Area
The Grace Building (50%)	New York, NY	1971	1,519,000	758,000	99.9%
World Apparel Center (50%)	New York, NY	1970	1,150,000	574,000	98.3%
110 William Street	New York, NY	1960	868,000	868,000	100.0%
1065 Ave. of the Americas (99%)	New York, NY	1958	665,000	659,000	94.9%
1460 Broadway (50%)	New York, NY	1951	214,000	107,000	100.0%
Newport Tower	Jersey City, NJ	1990	1,038,000	1,038,000	99.7%
Total – New York Area	(7 properties)		7,912,000	6,462,000	99.1%
Washington, D.C. Area					
2000 L Street, N.W.	Washington, D.C.	1968/98	385,000	385,000	99.9%
Watergate Office Building	Washington, D.C.	1965/91	257,000	257,000	99.7%
1225 Connecticut, N.W.	Washington, D.C.	1968/94	224,000	224,000	99.8%
1400 K Street, N.W.	Washington, D.C.	1982	193,000	193,000	100.0%
1250 Connecticut, N.W.	Washington, D.C.	1964/96	171,000	171,000	99.9%
1250 23rd Street, N.W.	Washington, D.C.	1990	117,000	117,000	100.0%
2401 Pennsylvania	Washington, D.C.	1991	77,000	77,000	87.5%
Bethesda Crescent	Bethesda, MD	1987	263,000	263,000	100.0%
Plaza West	Bethesda, MD	1965	99,000	99,000	100.0%
Twinbrook Metro Plaza	Rockville, MD	1986	165,000	165,000	100.0%
Silver Spring Metro Plaza	Silver Spring, MD	1986	702,000	702,000	80.7%
Silver Spring Centre	Silver Spring, MD	1987	216,000	216,000	91.9%
Goddard Corporate Park	Lanham, MD	1993	203,000	203,000	100.0%
Hanover Office Park (2)	Greenbelt, MD	1987	16,000	16,000	100.0%
Beaumeade Corporate Park	Washington, D.C.	1990/98/2000	460,000	460,000	100.0%
Rosslyn Gateway	Arlington, VA	1970	250,000	250,000	97.9%
Two Ballston Plaza	Arlington, VA	1988	222,000	222,000	100.0%
1550 Wilson Boulevard	Arlington, VA	1983	133,000	133,000	95.8%
1560 Wilson Boulevard	Arlington, VA	1987	127,000	127,000	95.6%
Reston Unisys	Reston, VA	1980	238,000	238,000	100.0%
One Reston Place	Reston, VA	2000	184,000	184,000	99.8%
Sunrise Tech Park	Reston, VA	1983/85	312,000	312,000	83.6%
Total – Washington, D.C. Area	(22 properties)		5,014,000	5,014,000	95.4%
Secondary Markets					
Charlotte					
Bank of America Plaza	Charlotte, NC	1974	876,000	876,000	99.2%
First Citizens Plaza	Charlotte, NC	1985	454,000	454,000	97.5%
Perimeter Woods	Charlotte, NC	1991/98	314,000	314,000	80.3%
Total – Charlotte	(3 properties)		1,644,000	1,644,000	95.2%
Minneapolis					
Northstar Center	Minneapolis, MN	1916/62/86	813,000	813,000	97.1%
Minnesota Center	Minneapolis, MN	1987	289,000	289,000	95.2%
Total – Minneapolis	(2 properties)		1,102,000	1,102,000	96.6%
Pittsburgh					
Gateway Center	Pittsburgh, PA	1952/60	1,450,000	1,450,000	87.9%
St. Louis					
Metropolitan Square	St. Louis, MO	1989	1,051,000	1,051,000	94.0%
St. Louis Place	St. Louis, MO	1983	337,000	337,000	80.9%
Total – St. Louis	(2 properties)		1,388,000	1,388,000	90.8%
Other					
New Center One (67%)	Detroit, MI	1983	496,000	331,000	85.1%
250 West Pratt Street	Baltimore, MD	1986	362,000	362,000	96.5%
Bank of America Plaza	Columbia, SC	1989	302,000	302,000	91.6%
1441 Main Street	Columbia, SC	1988	264,000	264,000	93.7%
1333 Main Street	Columbia, SC	1983	217,000	217,000	95.2%
Borden Building	Columbus, OH	1974	569,000	569,000	93.5%

Name (Ownership)	Location	Year of completion/ renovation	Total area (sq. ft.)	Owned area (sq. ft.)	Occupancy Weighted on Owned Area
Clark Tower	Memphis, TN	1973/97	648,000	648,000	93.4%
Capital Center II & III	Sacramento, CA	1984/85	541,000	541,000	100.0%
Williams Center I & II	Tulsa, OK	1982/83	770,000	770,000	92.1%
Esperante Office Building	West Palm Beach, FL	1989	247,000	247,000	84.7%
Total – Other	(10 properties)		4,416,000	4,251,000	93.1%
Total	(76 properties)		48,862,000	41,323,000	94.3%

- (1) We hold a subordinated mortgage and option to purchase the property and we are the residual beneficiary of the trust that owns the property. In addition, we have responsibility for property management and leasing. Accordingly, the property is excluded from operating statistics other than aggregate square footage calculations.
- (2) Excludes condominium ownership.

Office Development Properties

The following table sets forth key information as of December 31, 2001 with respect to our office properties under development. The economic interest of our owning entity is 100% unless otherwise noted.

Project Name (Ownership)	Location	Completion	Total area (sq. ft.)	Owned area (sq. ft.)	Total Cost (\$ mil.)	Pro Rata Cost (\$ mil.)	Occupancy	Leased
One Alliance Center	Buckhead, GA	Oct. 2001	560,000	560,000	100	100	47%	75%

Retail/Entertainment Properties

Operating and Development Properties – Held for Disposition

The following table sets forth key information as of December 31, 2001 with respect to the retail/entertainment properties that we are holding for disposition. The economic interest of our owning entity is 100% unless otherwise noted.

Project Name (Ownership)	Location	Completion	Total area (sq. ft.)	Owned area (sq. ft.)	Occupancy	Leased
Desert Passage	Las Vegas, NV	Aug. 2000	475,000	475,000	74%	78%
Paseo Colorado (1)	Pasadena, CA	Sept. 2001	565,000	410,000	84%	93%
Hollywood & Highland						
Retail	Los Angeles, CA	Nov. 2001	645,000	645,000	72%	88%
Hotel (91%) (2)	Los Angeles, CA	Dec. 2001	600,000	546,000	n/a	n/a
			1,245,000	1,191,000		
Total Projects	(3 projects)		2,285,000	2,076,000	76%	86%

- (1) Includes 155,000 square feet owned directly by department store anchor. Leasing status excludes this space.
- (2) Economic ownership interest at December 31, 2001 is 84.5%. It is expected that our economic ownership interest will increase to 91% as a consequence of our joint venture partner's conversion of \$5 million of equity into debt.

Item 3. Legal Proceedings

We are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. While we cannot predict with certainty the final outcome with respect to pending claims and litigation, in our opinion any liability that may arise from such contingencies would not have a material adverse effect on our combined consolidated financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2001, matters were submitted to a vote of our security holders on two occasions. On December 3, 2001, our then sole stockholder, TrizecHahn Corporation's Hungarian subsidiary, approved by written consent our second amended and restated certificate of incorporation and a recapitalization agreement between such Hungarian subsidiary and us. On December 20, 2001, TrizecHahn Corporation's Hungarian subsidiary, which then held 38,000,000 shares of our common stock, approved by written consent our third amended and restated certificate of incorporation. We did not solicit consents with respect to this matter from holders of the remaining 220,000 shares of our common stock outstanding at such time

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market for Our Common Stock

There is no established public trading market for our common stock. As at March 1, 2002, there were 102 holders of our common stock.

We expect that our common stock, some of which may be represented by exchange certificates, will be listed and traded on the New York Stock Exchange on the effective date of the corporate reorganization. The New York Stock Exchange has authorized the listing of our common stock and exchange certificates under the symbols "TRZ" and "XTR," respectively.

Dividend Policy

Prior to the effective date of the corporate reorganization, we will have always been an indirect, substantially wholly owned subsidiary of a larger corporation, TrizecHahn Corporation. In the first quarter of 2002, TrizecHahn Corporation shareholders are expected to receive a dividend of \$0.0875 per share. This expected dividend distribution is based on an aggregate dividend of \$0.35 per share expected to be paid on our common stock and on TrizecHahn Corporation shares in 2002, which is the same as the dividend paid on TrizecHahn Corporation shares in 2001. After completion of the corporate reorganization, we expect to make three quarterly dividend distributions of \$0.0875 per share to holders of our common stock in the final three quarters of 2002. Commencing in the first quarter of 2003 and thereafter, we intend to make distributions to the holders of our common stock and special voting stock in an amount that is at least equal to the minimum amount required to maintain REIT status each year through regular quarterly dividends. We are required to distribute at least 90% of our net taxable income each year, excluding capital gains, to our stockholders in order to retain REIT status.

Recent Sales of Unregistered Securities

Except as described below, there were no securities sold by the registrant in 2001 that were not registered under the Securities Act.

On May 17, 2001, a special-purpose vehicle created by one of our subsidiaries issued commercial mortgage pass-through certificates for \$1.44 billion. Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated acted as co-lead managers and joint bookrunners with respect to the certificates. The certificates were issued to six investment banks, including Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as the initial purchasers. This issuance of certificates was exempt from registration pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated under the Securities Act on the basis that the transaction did not involve a

public offering. The certificates were eligible for resale by the initial purchasers in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to institutional accredited investors within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act, or outside the United States in accordance with Regulation S under the Securities Act.

On December 3, 2001, we issued 357.6 shares of our common stock to an indirect, wholly owned Hungarian subsidiary of TrizecHahn Corporation in exchange for the delivery for cancellation to us of all previously outstanding Series A convertible preferred stock in connection with the exercise of conversion rights. The exemption from registration was pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated under the Securities Act on the basis that the transaction did not involve a public offering.

On December 3, 2001, we issued 100 shares of our special voting stock, 100,000 shares of our Class F convertible stock and 38,000,000 shares of our common stock to TrizecHahn Corporation's indirect Hungarian subsidiary in exchange for the delivery for cancellation to us of all previously outstanding common stock in connection with a recapitalization of our company. The exemption from registration was pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated under the Securities Act on the basis that the transaction did not involve a public offering.

On December 11, 2001, we issued 180,000 shares of our common stock to TrizecHahn Corporation in consideration for the contribution to us of all outstanding shares of 823 Inc. common stock and the assignment to us of all indebtedness of 823 Inc. to TrizecHahn Corporation. The exemption from registration was pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated under the Securities Act on the basis that the transaction did not involve a public offering.

On December 28, 2001, we issued 376,500 shares of our Class C convertible preferred stock to TrizecHahn Corporation's indirect Hungarian subsidiary for aggregate cash proceeds of \$414,150,000 and 4 shares of our Class C convertible preferred stock to a minority shareholder of our common stock for aggregate cash proceeds of \$4,400. The exemption from registration was pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated under the Securities Act on the basis that the transactions did not involve a public offering.

Terms of Conversion of Recently Issued Unregistered Convertible Securities

Holders of shares of Class C convertible preferred stock may at their option convert all or part of their shares of Class C convertible preferred stock into common stock at any time after April 1, 2002. Each share of Class C convertible preferred stock shall be convertible into such number of shares of our common stock equal to \$1,100 divided by the fair market value of one share of our common stock at the time of conversion, which is to be determined by our board of directors.

Shares of our Class F convertible stock are convertible into shares of our common stock in connection with certain triggering events that generally relate to FIRPTA tax liability. If and to the extent that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries dispose of shares of our stock at a time when that sale is not exempt from U.S. tax because we are not then a "domestically-controlled REIT," TrizecHahn Corporation, Trizec Canada Inc. and their subsidiaries will incur FIRPTA tax with respect to the gain realized on such disposition. Holders of the Class F convertible stock will be entitled to convert shares of Class F convertible stock into shares of our common stock, in most cases on the business day following delivery of a conversion notice to us, in connection with any of the following conversion triggering events:

- FIRPTA tax is payable in connection with a disposition of our capital stock pursuant to the corporate reorganization;
- FIRPTA tax is payable in connection with major corporate transactions or events, such as mergers, requiring the approval of a specified portion of our common stockholders or the tendering of a specified portion of our common stock to effect those transactions or events, where they occur within 66 months following the effective date of the corporate reorganization;
- FIRPTA tax is payable in connection with a disposition of shares of our capital stock by Trizec Canada Inc. or its subsidiaries within a three-month period following the 63rd month after the corporate

reorganization, and prior to such disposition we were unable to deliver certification stating that we are a “domestically-controlled REIT” at such time or we provided such certification but FIRPTA tax is nevertheless payable on such disposition;

- FIRPTA tax is payable in connection with a disposition of shares of our capital stock by Trizec Canada Inc. or its subsidiaries within a 60-month period following the 66th month after the corporate reorganization, which shares were held by Trizec Canada Inc. or its subsidiaries on the 66th-month anniversary of the corporate reorganization; *provided* that in connection with a disposition of our capital stock by Trizec Canada Inc. or its subsidiaries in the three-month period following the 63rd month after the corporate reorganization, we were unable to deliver certification stating that we were a “domestically -controlled REIT” at such time or we provided such certification but FIRPTA tax was nevertheless payable on such disposition; and
- a FIRPTA tax liability is asserted by the Internal Revenue Service but is disputed by the relevant taxpayer and such taxpayer wishes to prepay the disputed amount pending resolution of the dispute but is unable to finance on commercial terms such prepayment and any associated taxes or costs; *provided, however,* that following the settlement of the dispute the relevant taxpayer will refund to us any amount that is in excess of such taxpayer’s FIRPTA tax liability plus any costs associated with the dispute.

In order to convert a share of Class F convertible stock, the holder must give a notice to us within 21 days after the occurrence of the relevant conversion triggering event. In most circumstances, a sale of shares of our common stock by Trizec Canada Inc. or its subsidiaries in the 63-month period following the corporate reorganization will not entitle a holder to convert any shares of Class F convertible stock into shares of our common stock. Based on all of the facts and circumstances we do not expect that TrizecHahn Corporation, Trizec Canada Inc. or their subsidiaries will incur a material amount of FIRPTA tax in connection with any of the transfers made as part of the corporate reorganization. Furthermore, we are not currently planning to undertake any transactions or events after the corporate reorganization that would allow for the conversion of our Class F convertible stock. In addition, based on all of the facts and circumstances, we expect to qualify as a “domestically-controlled REIT” 63 months after the effective date of the corporate reorganization.

Upon conversion, a holder of Class F convertible stock will generally be entitled to a number of shares of our common stock such that the after-tax proceeds from the sale thereof would equal the amount of the FIRPTA tax incurred, plus any costs or penalties associated therewith. In the event that our Class F convertible stock is convertible because FIRPTA tax is payable in connection with a disposition of our stock in the 60-month period following the 66th month after the corporate reorganization as described above, the aggregate number of shares of our common stock that may be received by the holder of our Class F convertible stock pursuant to such conversions would be subject to a limit based on a fixed amount of FIRPTA tax. Specifically, the aggregate number of shares received will be limited so that the aggregate after-tax proceeds from any sale thereof will not exceed the amount of FIRPTA tax that would have been payable had all such shares been sold at the end of the 66th month after the corporate reorganization. For the purposes of determining a holder’s conversion entitlement, the fair market value of our common stock will be calculated as follows:

- Where common stock is sold before the conversion date to fund applicable taxes or costs, the fair market value of our common stock will be determined by the weighted average prices realized on sales of our common stock, less costs associated with such sales.
- Otherwise, the fair market value of our common stock will be determined by the weighted average trading price of our common stock on the day the conversion notice was delivered.

If we disagree with the calculation of the number of shares of common stock resulting from conversion, we will be entitled to dispute the calculation in arbitration proceedings.

Item 6. Selected Financial Data

The following financial data are derived from our audited combined consolidated financial statements. The financial data set forth below should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

The combined consolidated financial statements present all of TrizecHahn Corporation’s U.S. holdings, substantially all of which are owned and operated by Trizec Properties, Inc., TrizecHahn Developments Inc. and their respective consolidated subsidiaries. The combined entities and their subsidiaries are under the common control of TrizecHahn Corporation and have been presented utilizing the historical cost basis of TrizecHahn Corporation.

	Years Ended December 31,				
	2001	2000	1999	1998	1997
	(unaudited)				
	(in millions)				
Operating Data:					
Revenues:					
Rental, parking and other.....	\$ 912.3	\$ 870.5	\$ 801.7	\$ 524.0	\$ 326.9
Total revenues.....	928.0	879.0	808.8	536.6	331.7
Expenses:					
Operating and property taxes.....	(378.9)	(355.6)	(333.9)	(222.1)	(152.3)
General and administrative.....	(25.9)	(18.4)	(16.7)	(9.0)	(9.1)
Interest.....	(152.7)	(265.7)	(235.0)	(160.9)	(86.9)
Depreciation and amortization.....	(161.1)	(154.1)	(133.4)	(70.6)	(43.1)
Reorganization costs.....	(15.9)	(6.7)	(5.0)	-	-
Loss from securities investments and derivatives.....	(15.9)	-	-	-	-
Total expenses.....	(750.4)	(800.5)	(724.0)	(462.6)	(291.4)
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, real estate gain (loss), income taxes, extraordinary item and effect of change in accounting principle.....	177.6	78.5	84.8	74.0	40.3
Minority interest.....	0.4	0.6	1.5	1.1	-
Income from unconsolidated real estate joint ventures ..	12.9	19.4	16.2	40.6	31.9
Real estate gain (loss).....	(307.0)	33.2	(41.4)	535.0	1.9
(Provision for) benefit from income taxes	(13.8)	252.8	(22.8)	(248.4)	(28.2)
Effect of change in accounting principle and extraordinary item.....	(22.6)	(1.5)	-	-	-
Net income (loss).....	\$ (152.5)	\$ 383.0	\$ 38.3	\$ 402.3	\$ 45.9

Years Ended December 31,

	2001	2000	1999	1998	1997
	(unaudited)				
	(in millions)				
Combined Balance Sheet Data (at end of period):					
Real estate, net of accumulated depreciation	\$ 4,960.4	\$ 4,578.8	\$ 4,734.4	\$ 4,051.8	\$ 1,999.6
Cash and cashequivalents.....	297.4	70.2	80.4	78.6	72.7
Investment in unconsolidated real estate joint ventures .	289.2	384.0	342.0	305.1	738.9
Total assets	6,096.4	5,564.0	5,541.3	5,017.4	3,030.4
Mortgage debt and other loans	3,017.8	2,326.9	2,587.2	2,257.7	1,368.4
Total liabilities.....	3,661.0	2,917.2	4,011.4	3,149.5	1,564.8
Owner's equity	2,435.4	2,646.8	1,529.9	1,867.9	1,465.6
Cash Flow Information:					
Cash provided by (used for) operating activities.....	\$ 462.9	\$ 113.1	\$ 490.7	\$ (186.0)	\$ 142.7
Cash provided by (used for) investing activities	\$ (597.0)	\$ (52.7)	\$ (873.2)	\$ (992.3)	\$ (155.1)
Cash provided by (used for) financing activities.....	\$ 361.3	\$ (70.6)	\$ 384.3	\$ 1,184.0	\$ 42.1
Other Data:					
Number of office properties	76	77	89	87	33
Net rentable square feet of office properties (in millions).....	48.9	49.8	52.0	48.0	27.9
Occupancy of office properties weighted on owned area	94.3%	94.2%	91.4%	90.4%	87.4%
Office property operating income (1) (5).....	<u>\$ 511.2</u>	<u>\$ 508.2</u>	<u>\$ 463.4</u>	<u>\$ 265.4</u>	<u>\$ 113.6</u>
Office property operating income including pro rata joint venture share (2) (5).....	<u>\$ 564.5</u>	<u>\$ 558.4</u>	<u>\$ 513.1</u>	<u>\$ 310.9</u>	<u>\$ 147.7</u>
Earnings before interest, taxes, depreciation and amortization (3) (5).....	<u>\$ 580.8</u>	<u>\$ 565.2</u>	<u>\$ 513.1</u>	<u>\$ 427.5</u>	<u>\$ 292.3</u>
Funds from operations (4) (5).....	<u>\$ 360.5</u>	<u>\$ 250.3</u>	<u>\$ 242.1</u>	<u>\$ 198.4</u>	<u>\$ 139.0</u>

(1) Office property operating income is defined as total rental revenue including tenant recoveries and parking, fee and other income less operating expenses and property taxes of our office portfolio. Office property operating income is presented because this data is used by some investors to evaluate the performance of, and to determine the estimated fair market value of our office property portfolio. We consider office property operating income to be an indicative measure of our operating performance due to the significance of our office property portfolio to our overall results, and because this data can be used to evaluate our ability to effectively manage our portfolio. However, this data should not be considered as an alternative to net income, operating profit, cash flows from operations or any other operating or liquidity performance measure prescribed by GAAP. In addition, our definition and calculation of office property operating income may not be comparable to similarly titled measures reported by other companies. General and administrative, interest, taxes, depreciation and amortization expenses, which are not reflected in the presentation of office property operating income, have been, and will be, incurred by us. Investors are cautioned that these excluded items are significant components in understanding and assessing our financial performance.

(2) Office property operating income including pro rata joint venture share is defined as total rental revenue including tenant recoveries and parking, fee and other income less operating expenses and property taxes plus our pro rata share of property net operating income from unconsolidated real estate joint ventures. Office property operating income

including our pro rata joint venture share is presented because this data is used by some investors to evaluate the performance of, and to determine the estimated fair market value of our office property portfolio. We consider office property operating income including pro rata joint venture share to be an indicative measure of our operating performance due to the significance of our office property portfolio to our overall results, and because this data can be used to evaluate our ability to effectively manage our portfolio. However, this data should not be considered as an alternative to net income, operating profit, cash flows from operations or any other operating or liquidity performance measure prescribed by GAAP. In addition, our definition and calculation of office property operating income including pro rata joint venture share may not be comparable to similarly titled measures reported by other companies. General and administrative, interest, taxes, depreciation and amortization expenses, which are not reflected in the presentation of office property operating income, have been, and will be incurred by us. Investors are cautioned that these excluded items are significant components in understanding and assessing our financial performance.

- (3) Earnings before interest, taxes, depreciation and amortization is defined as net income excluding interest expense, reorganization costs, loss from securities investments and derivatives, income taxes, depreciation and amortization, minority interest allocation, real estate gain (loss), extraordinary items, effect of change in accounting principle and income from investment in real estate joint ventures plus our share of the earnings before interest, income taxes, depreciation and amortization for the unconsolidated real estate ventures. Earnings before interest, taxes, depreciation and amortization is presented because we believe this data is used by some investors to evaluate our ability to meet debt service requirements. We consider earnings before interest, taxes, depreciation and amortization to be an indicative measure of our operating performance due to the significance of our long-lived assets and because this data can be used to measure our ability to service debt, fund capital expenditures and expand our business. However, this data should not be considered as an alternative to net income, operating profit, cash flows from operations or any other operating or liquidity performance measure prescribed by GAAP. In addition, earnings before interest, taxes, depreciation and amortization as calculated by us may not be comparable to similarly titled measures reported by other companies. Interest, taxes and depreciation and amortization, which are not reflected in the presentation of earnings before interest, taxes, depreciation and amortization, have been, and will be, incurred by us. Investors are cautioned that these excluded items are significant components in understanding and assessing our financial performance.
- (4) The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in March 1995 defines funds from operations as net income (loss), computed in accordance with GAAP, excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In November 1999, NAREIT issued a National Policy Bulletin effective January 1, 2000 clarifying the definition of funds from operations to include all operating results, both recurring and non-recurring, except those defined as extraordinary under GAAP. We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. We compute funds from operations in accordance with standards established by NAREIT, which may not be comparable to funds from operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. Funds from operations does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance or to cash flows from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions. For a reconciliation of net income to funds from operations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations” in this information statement.
- (5) The following table reconciles net income to funds from operations; earnings before interest, taxes depreciation and amortization; office property operating income including pro rata joint ventures share; and, office property operating income.

	Years Ended December 31,				
	2001	2000	1999	1998	1997
			(in millions)		(unaudited)
Net income	\$ (152.5)	\$ 383.0	\$ 38.3	\$ 402.3	\$ 45.9
Add/(deduct):					
Minority interest.....	(0.4)	(0.6)	(1.5)	(1.1)	-
Income from unconsolidated real estate joint ventures	(12.9)	(19.4)	(16.2)	(40.6)	(31.9)
Real estate (gain) loss.....	307.0	(33.2)	41.4	(535.0)	(1.9)
(Provision for) benefit from income taxes.....	13.8	(252.8)	22.8	248.4	28.2
Effect of change in accounting principle and extraordinary item.....	22.6	1.5	-	-	-
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, real estate gain (loss), income taxes, extraordinary item and cumulative effect of a change in accounting principle	177.6	78.5	84.8	74.0	40.3
Add/(deduct):					
Income from unconsolidated real estate joint ventures	12.9	19.4	16.2	40.6	31.9
Depreciation and amortization (real estate related) including share of unconsolidated real estate joint ventures.....	174.9	161.8	142.3	85.8	69.1
Current operating taxes.....	(4.9)	(9.4)	(1.2)	(2.0)	(2.3)
Funds from operations	360.5	250.3	242.1	198.4	139.0
Add:					
Interest expense including share of unconsolidated real estate joint ventures.....	180.5	295.4	262.3	222.5	149.2
Non real estate related depreciation and amortization including share of unconsolidated real estate joint ventures.....	3.1	3.4	2.5	4.6	1.8
Reorganization costs.....	15.9	6.7	5.0	-	-
Loss from securities investments and derivatives.....	15.9	-	-	-	-
Current operating taxes.....	4.9	9.4	1.2	2.0	2.3
Earnings before interest, taxes, depreciation and amortization	580.8	565.2	513.1	427.5	292.3
Add/(deduct):					
General and administrative expense.....	25.9	18.4	16.7	9.0	9.1
Interest income including share of unconsolidated real estate joint ventures.....	(17.2)	(12.0)	(9.6)	(20.1)	(7.6)
Retail portfolio property operating income including share of unconsolidated real estate joint ventures....	(25.0)	(13.2)	(7.1)	(105.5)	(146.1)
Office property operating income including pro rata joint venture share	564.5	558.4	513.1	310.9	147.7
Deduct:					
Share of unconsolidated real estate joint ventures office property operating income.....	(53.3)	(50.2)	(49.7)	(45.5)	(34.1)
Office property operating income	<u>\$ 511.2</u>	<u>\$ 508.2</u>	<u>\$ 463.4</u>	<u>\$ 265.4</u>	<u>\$ 113.6</u>

Basis of Presentation for Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet as of December 31, 2001

TrizecHahn Corporation, our ultimate parent company, is currently proposing a corporate reorganization. On completion of this corporate reorganization, we expect to become a publicly traded real estate investment trust, or REIT, and to own all of the U.S. assets that TrizecHahn Corporation currently owns, directly or indirectly.

Appearing elsewhere in this Form 10-K are our combined consolidated historical financial statements as of December 31, 2001. The organization presented in those combined financial statements is not a legal entity; it is a combination of all of the U.S. assets held directly or indirectly by TrizecHahn Corporation.

The unaudited pro forma condensed combined consolidated balance sheet gives effect to transactions up to and including the effective date of the proposed corporate reorganization, which have either occurred or will probably occur subsequent to December 31, 2001, as if they had occurred on December 31, 2001. In the opinion of management, all significant adjustments necessary to reflect the effects of the corporate reorganization have been made.

The unaudited pro forma condensed combined consolidated balance sheet is presented for comparative purposes only and is not necessarily indicative of what our actual future combined position would be. This unaudited pro forma combined consolidated balance sheet should be read in conjunction with, and is qualified in its entirety by, our historical combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

Pro Forma Condensed Combined Consolidated Balance Sheet at December 31, 2001

	Historical Condensed Combined Consolidated	Pro Forma Adjustments (Note 1) (unaudited) (in thousands)	Pro Forma Condensed Combined Consolidated (unaudited)
Assets			
Real estate, net.....	\$ 4,960,447	\$ 30,000	\$ 4,990,447
Cash and cash equivalents/(bank overdraft).....	297,434	(361,341)	(63,907)
Investment in unconsolidated real estate joint ventures.....	289,242	-	289,242
Loan receivable from Chekfield plc.....	-	35,641	35,641
Other assets.....	458,679	-	458,679
Advances to parent and affiliated companies.....	90,633	(90,633)	-
Total assets	\$ 6,096,435	\$ (386,333)	\$ 5,710,102
Liabilities and Owners' Equity			
Mortgage debt and other loans.....	\$ 3,017,798	\$ 215,500	\$ 3,233,298
Other liabilities.....	342,057	-	342,057
Deferred income taxes.....	60,000	-	60,000
Advances from parent and affiliated companies.....	236,619	(236,619)	-
Total liabilities	3,656,474	(21,119)	3,635,355
Minority interest	4,386	-	4,386
Redeemable Stock	200	-	200
Owners' Equity			
THDI common stock.....	-	-	-
Trizec Properties common stock.....	382	1,113	1,495
Series B convertible preferred stock.....	1,100,000	(1,100,000)	-
Class C convertible preferred stock.....	414,154	(414,154)	-
Warrants.....	-	20,890	20,890
Additional paid -in capital.....	922,844	1,132,266	2,055,110
Retained earnings.....	6,514	(2,765)	3,749
Unearned compensation.....	(6,701)	(2,564)	(9,265)
Accumulated other comprehensive income (loss).....	(1,818)	-	(1,818)
Total Owners' Equity	2,435,375	(365,214)	2,070,161
Total Liabilities and Owners' Equity	\$ 6,096,435	\$ (386,333)	\$ 5,710,102

**Notes to Pro Forma Condensed Combined Consolidated Balance Sheet as of December 31, 2001 (unaudited)
(dollars in thousands, except share and per share amounts)**

1. Transactions that are planned to occur prior to or at the effective date of the corporate reorganization.

Distributions

- a. Prior to the effective date of the corporate reorganization, Trizec Properties is expected to pay a cash dividend on its Series B convertible preferred stock, Class C convertible preferred stock and common stock representing its estimated 2002 taxable income and additional cash required by TrizecHahn Corporation to complete the corporate reorganization. The aggregate dividend is currently estimated to be approximately \$601,833. In addition, at that time, TrizecHahn Corporation will repay its intercompany advance from Trizec Properties in the amount of \$90,633. This results in an estimated net distribution of approximately \$511,200. The final net distribution may vary from this estimate.

This dividend of \$601,833 has been charged to additional paid-in capital, with \$386,333 estimated to be funded from cash and cash equivalents and the remaining \$215,500 from our revolving credit facility. The ultimate amount to be borrowed under the revolving credit facility will be determined by such variables as the actual amount of the dividend and the actual cash position of Trizec Properties at the time the dividend is paid.

Stock Transactions and Inter-Company Transfers

- b. Prior to the effective date of the corporate reorganization, TrizecHahn Corporation will contribute to Trizec Properties all retail and entertainment assets that were owned by TrizecHahn Developments Inc., or THDI. To effect the contribution, TrizecHahn Corporation will contribute all issued and outstanding THDI common stock and inter-company debt owed to it of \$236,619 in exchange for newly issued shares of Trizec Properties Class C convertible preferred stock and Trizec Properties common stock. Given that the assets contributed are already included in our combined historical balance sheet, the only impact of this transfer will be an increase in Class C convertible preferred stock of \$236,619 and a reduction in advances from parent and affiliated companies of the same amount.
- c. Prior to the effective date of the corporate reorganization, TrizecHahn Corporation will transfer to Trizec Properties the 151 Front Street, Toronto, Ontario property for consideration of \$30,000 in cash. This value represents TrizecHahn Corporation's carrying value as at December 31, 2001. As a result, cash has been reduced by \$30,000 and real estate, net has been increased by \$30,000.
- d. TrizecHahn Corporation expects to complete a sale of its interest in Global Switch S.à.r.l. prior to the effective date of the corporate reorganization. On March 4, 2002 Trizec Properties advanced to TrizecHahn Corporation 25,000 (\$35,641) to fund TrizecHahn Corporation's loan commitment to Chelsfield plc in connection with the negotiation of the Global Switch sale. It is expected that once TrizecHahn Corporation has completed its sale, it will transfer to Trizec Properties any shares of Chelsfield plc or amounts receivable from Chelsfield plc prior to the effective date of the corporate reorganization in consideration for shares of Trizec Properties stock and repayment of this intercompany advance. At December 31, 2001, TrizecHahn Corporation's carrying value of its joint venture interest in Global Switch was \$39,500. The ultimate value of the consideration Trizec Properties will pay for the transferred assets will vary based on a number of factors including the value of any Chelsfield plc share consideration that may be received at the time of the Global Switch sale. Only the intercompany advance and planned subsequent settlement, by transfer of the loan receivable from Chelsfield plc, have been given pro forma effect. As a result, cash has been reduced by \$35,641 and loan receivable from Chelsfield plc has increased by \$35,641, on the assumption that the full
- e. While we do not know the intention of the minority shareholder which holds four shares of Trizec Properties Class C convertible preferred stock, it is assumed for the purpose of this pro forma presentation that prior to the effective date of the corporate reorganization all of the Trizec Properties Series B convertible preferred stock and Class C convertible preferred stock will be converted into Trizec Properties common stock. As a result, Series B convertible preferred stock and Class C

convertible preferred stock have been reduced by \$1,100,000 and \$650,773 respectively with an offsetting increase to additional paid-in capital.

As part of the corporate reorganization, Trizec Properties will modify the number of its issued and outstanding shares of common stock such that the number of its issued and outstanding shares of common stock held by a subsidiary of Trizec Canada Inc. and TrizecHahn Corporation's Hungarian subsidiary will in aggregate equal the number of issued and outstanding TrizecHahn Corporation subordinate voting shares and multiple voting shares.

We have assumed that the following shares of stock will be outstanding at the effective date of the corporate reorganization:

- 149,543,948 shares of common stock; and
- 100 shares of special voting stock; and
- 100,000 shares of Class F convertible stock.

The estimated number of shares of Trizec Properties common stock is based on the actual number of TrizecHahn Corporation subordinate voting shares and multiple voting shares outstanding as of February 28, 2002. The actual number of shares of common stock will vary based on the actual number of TrizecHahn Corporation subordinate voting and multiple voting shares outstanding as of the effective date of the corporate reorganization.

As a result of the above, \$1,113 is reclassified from additional paid-in capital to Trizec Properties common stock to reflect the par value of the common stock outstanding.

- f. All outstanding options to purchase shares of TrizecHahn Corporation will be cancelled and replaced as part of the corporate reorganization with either (1) options to purchase our common stock, (2) warrants to purchase our common stock or (3) options to purchase Trizec Canada Inc. subordinate voting shares.

Cancelled TrizecHahn Corporation options that are in respect of services provided to Trizec Properties are to be replaced with options to purchase our common stock. These options are measured for accounting purposes based on their intrinsic value on the date they are exchanged. Intrinsic value is the current market value of the shares subject to an option or warrant less the exercise price of each such option or warrant. Based on an estimate of 8.6 million options to be issued, and using \$15.95 per share, which is the closing price of TrizecHahn Corporation subordinate voting shares on the New York Stock Exchange on February 28, 2002, the intrinsic value of these options for the purpose of this pro forma balance sheet has been estimated to be \$5,329. To the extent the options are already vested, the intrinsic value of \$2,765 will be expensed to reorganization costs with an offsetting increase to additional paid-in capital. This is reflected on the pro forma balance sheet as a decrease to retained earnings. To the extent the options remain unvested, the aggregate intrinsic value of \$2,564 will result in an increase to unearned compensation with an offsetting increase to additional paid-in capital within owners' equity on the balance sheet. This amount is then amortized to general and administrative expense over the vesting period.

Cancelled TrizecHahn Corporation options not to be replaced as described in the preceding paragraph are to be replaced with warrants to purchase our common stock or with Trizec Canada Inc. options. For any Trizec Canada Inc. options to be issued we will issue a similar number of warrants to purchase our common stock. All warrants to be issued are not for services rendered to Trizec Properties. As such, for accounting purposes they are measured at fair market value, and considered a deemed dividend by us. Based on an estimate of 8.7 million warrants to be issued and using the binomial option pricing model, the fair market value of these warrants and the amount of the deemed dividend is \$20,890. This amount is based on a trading value of Trizec Properties common stock of \$15.95 per share, which is the trading value of TrizecHahn Corporation subordinate voting shares at February 28,

2002, and is based on other assumptions required for the binomial option pricing model considered by management to be reasonable.

The intrinsic values and fair market values used in these pro forma financial statements are subject to change as the actual amounts on the date of the corporate reorganization may vary due to such variables as the initial trading value of the Trizec Properties common stock, the actual number of options outstanding, and possible different assumptions in the binomial option pricing model.

Pro Forma Adjustment Summary
Balance Sheet
December 31, 2001

The above transactions described in Note 1 can be summarized as follows:

	a.	b.	c.	d.	e.	f.	Total
Balance sheet caption increase (decrease) in: (in thousands)							
Real estate, net	-	-	30,000	-	-	-	30,000
Cash and cash equivalents/(bank overdraft)	(295,700)	-	(30,000)	(35,641)	-	-	(361,341)
Loan receivable from Chelsfield plc	-	-	-	35,641	-	-	35,641
Advances to parent & affiliated companies	(90,633)	-	-	-	-	-	(90,633)
Mortgage debt and other loans	215,500	-	-	-	-	-	215,500
Advances from parent & affiliated companies	-	(236,619)	-	-	-	-	(236,619)
Trizec Properties common stock	-	-	-	-	1,113	-	1,113
Series B convertible preferred stock	-	-	-	-	(1,100,000)	-	(1,100,000)
Series C convertible preferred stock	-	236,619	-	-	(650,773)	-	(414,154)
Warrants	-	-	-	-	-	20,890	20,890
Additional paid-in capital	(601,833)	-	-	-	1,749,660	(15,561)	1,132,266
Retained earnings	-	-	-	-	-	(2,765)	(2,765)
Unearned compensation	-	-	-	-	-	(2,564)	(2,564)

Basis of Presentation for Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations for the Year Ended December 31, 2001

TrizecHahn Corporation, our ultimate parent company, is currently proposing a corporate reorganization. Upon completion of this corporate reorganization, we expect to become a publicly traded real estate investment trust, or REIT, and to own all of the U.S. assets that TrizecHahn Corporation currently owns, directly or indirectly.

Appearing elsewhere in this Form 10-K are our combined consolidated historical financial statements for the year ended December 31, 2001. The organization presented in those combined financial statements is not a legal entity; it is a combination of all of the U.S. assets held directly or indirectly by TrizecHahn Corporation.

The unaudited pro forma condensed combined consolidated statement of operations for the year ended December 31, 2001 gives effect to transactions up to and including the effective date of the proposed corporate reorganization, which will probably occur subsequent to December 31, 2001, as if they had occurred on January 1, 2001. In the opinion of management, all significant adjustments necessary to reflect the effects of the corporate reorganization have been made.

The unaudited pro forma condensed combined consolidated statement of operations is presented for comparative purposes only and is not necessarily indicative of what our actual future combined results of operations would be. The unaudited pro forma condensed combined consolidated statement of operations should be read in conjunction with, and are qualified in their entirety by, our historical combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

**Pro Forma Condensed Combined Consolidated Statement of Operations For the Year Ended
December 31, 2001**

	Historical Condensed Combined Consolidated	Pro Forma Adjustments (Note 1)	Condensed Combined Consolidated Pro Forma
		(unaudited)	(unaudited)
	(in thousands except share and per share amounts)		
Revenues:			
Rental, parking and other.....	\$ 912,274	\$	\$ 912,274
Total revenues	<u>927,951</u>		<u>927,951</u>
Expenses:			
Operating and property taxes	378,951		378,951
General and administrative	25,854	1,052	26,906
Interest.....	152,759	26,846	179,605
Depreciation and amortization	161,078		161,078
Reorganization costs	15,922		15,922
Loss from securities investments and derivatives	15,827		15,827
Total expense	<u>750,391</u>	<u>27,898</u>	<u>778,289</u>
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, real estate gain (loss), income taxes, extraordinary item and effect of change in accounting principle	177,560	(27,898)	149,662
Minority interest.....	433		433
Income from unconsolidated real estate joint ventures	12,952		12,952
Real estate gain (loss).....	(307,044)		(307,044)
(Provision for) benefit from income taxes	(13,795)		(13,795)
Income (loss) from continuing operations before effect of extraordinary item and change in accounting principle	<u>\$ (129,894)</u>	<u>\$ (27,898)</u>	<u>\$ (157,792)</u>
Income (loss) from continuing operations before effect of change in accounting principle and extraordinary item per share – basic			<u>\$ (1.06)</u>
Weighted average number of shares of common stock outstanding			<u>149,543,948</u>
Income (loss) from continuing operations before effect of change in accounting principle and extraordinary item per share – diluted			<u>\$ (1.06)</u>
Weighted average number of shares of common stock and common stock equivalents outstanding			<u>149,543,948</u>

Notes to Pro Forma Condensed Combined Consolidated Statement of Operations For the Year Ended December 31, 2001 (unaudited) (dollars in thousands, except share and per share amounts)

1. Transactions that are planned to occur prior to the effective date of the corporate reorganization

- a. Distributions that are planned to occur result in increased interest expense on Trizec Properties's revolving credit facility and reduced interest income on reduced cash balances. This results in a charge to interest expense of \$26,846 for the year ended December 31, 2001. This charge reflects a weighted average blended interest rate of approximately 4.65% for the year ended December 31, 2001.

The ultimate charge to interest expense will vary based on such variables as the actual amount of the distributions, the actual amount of borrowings required to fund the distributions, and such other factors as interest rates at that time. If interest rates had increased by 1/8% this would have resulted in additional pro forma annualized interest expense of approximately \$721.

- b. Trizec Properties will incur compensation expense for the amortization, over the vesting period, of the unearned compensation expense of the unvested TrizecHahn Corporation options exchanged for our unvested options. Based on an estimated intrinsic value, this results in a charge to general and administrative expense of \$1,052 for the year ended December 31, 2001. The actual amortization will vary based on the intrinsic value of the stock options on the effective date of the corporate reorganization.

2. Material non-recurring transactions directly attributable to the corporate reorganization

The following non-recurring transaction is directly attributable to the corporate reorganization and will result in a charge in our statement of operations. This non-recurring transaction is not reflected in the pro forma condensed combined consolidated statement of operations.

Trizec Properties will incur compensation expense for the vested options of TrizecHahn Corporation that are to be exchanged for our vested options. This will result in a charge of \$2,765 to reorganization costs based on the estimated intrinsic value. This amount will vary based on the intrinsic value of the stock options on the effective date of the corporate reorganization.

In addition, no pro forma adjustments have been presented to reflect the operations of 151 Front St., Toronto, Ontario as it is held for near term disposition.

3. Earnings per share

As part of the corporate reorganization, Trizec Properties will modify the number of its issued and outstanding shares of common stock such that the number of its issued and outstanding shares of common stock held by a subsidiary of Trizec Canada Inc. and TrizecHahn Corporation's Hungarian subsidiary will in aggregate equal the number of issued and outstanding TrizecHahn Corporation subordinate voting shares and multiple voting shares. We have assumed for the purposes of the pro forma presentation that this will result in approximately 149,543,948 shares of common stock. This number is based on the number of voting shares of TrizecHahn Corporation outstanding on February 28, 2002. The number of shares actually issued will differ from this amount based on the actual number of TrizecHahn Corporation voting shares on the effective date of the corporate reorganization.

Unaudited basic and diluted income from continuing operations before effect of change in accounting principle and extraordinary item per share have been computed by dividing income from continuing operations before effect of change in accounting principle and extraordinary item by the number of voting shares of TrizecHahn Corporation outstanding at February 28, 2002. All Trizec Properties common stock equivalents at February 28, 2002 that are expected to be outstanding at the effective date of the corporate reorganization were considered for the purposes of determining dilutive shares outstanding.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

-Looking Statements" and our combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

Overview

We will be the second largest fully integrated, self-managed, publicly traded office company in the United States based on the square footage of our owned and managed properties as of December 31, 2001, according to our internal estimates that are based on publicly available information about our competitors as of February 15, 2002. We are principally engaged in owning and managing office properties in the United States. At December 31, 2001, we had total assets of \$6.1 billion and owned interests in or managed 76 office properties containing approximately 49 million square feet, with our pro rata ownership interest totaling approximately 41 million square feet. Based on square footage, approximately 77% of our buildings are located in central business districts, or CBDs, of major U.S. cities, including Atlanta, Chicago, Dallas and Houston and the Los Angeles, New York and Washington, D.C. areas, and approximately 76% of our buildings are Class A. We consider Class A office buildings to be buildings that are professionally managed and maintained, that attract high-quality tenants and command upper-tier rental rates and that are modern structures or have been modernized to compete with newer buildings.

We are also completing the stabilization of three destination-oriented retail and entertainment centers, all of which are in operation. We intend to complete the leasing of these projects to achieve stable operating cash flows and then to dispose of these assets in an orderly fashion over the next several years.

At the end of 2000, we decided to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing in 2001. As a REIT we generally will not be subject to U.S. federal income tax if we distribute 100% of our taxable income and comply with a number of organizational and operational requirements.

Our goal is to increase stockholder value through sustained growth in operating cash flows, thereby increasing the value of our portfolio. In the near term, we believe we can accomplish our goal through the following strategies:

- intensively managing our properties and our portfolio;
- improving the efficiency and productivity of our operations; and
- maintaining a prudent and flexible capital plan.

Our portfolio strategy is to invest in office properties in the CBDs of major metropolitan areas demonstrating high job growth, allowing us to achieve economies of scale across a diverse base of tenants that provide for sustainable property cash flows.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that involve significant judgment and potentially result in materially different results under different assumptions and conditions. We believe the following critical accounting policies are affected by our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a detailed description on the application of these and other accounting policies, see Note 2 in the notes to our consolidated financial statements.

Real Estate

With respect to real estate assets classified as held for disposition, the determination of such classification is based on our intention and ability to sell these properties within a stated timeframe. Real Estate assets held for disposition are carried at the lower of their carrying values or estimated fair value less costs to sell. Estimated fair value is determined based on management's estimates of amounts that would be realized if the property were offered for sale in the ordinary course of business assuming a reasonable sales period and under normal market conditions. Fair values are determined using valuation techniques including third party appraisals when considered appropriate in the circumstances. Estimates of value include assumptions concerning future property cash flows, disposal dates and expected purchaser risk adjusted rates of return requirements. Different assumptions could result in significantly higher or lower estimates of fair value than those determined by management. In addition, changes in future market conditions could result in ultimate sale proceeds varying significantly from those assumed by management resulting in future gains or losses being recorded.

We evaluate the recoverability of our real estate assets held for the long term and record an impairment charge when there is an indicator of impairment and the undiscounted projected cash flows of the property are less than the carrying amount. A decline in operating results for a particular property could be an indicator of impairment and therefore require a charge to income in the future.

Investments

Investments in non-real estate assets consist primarily of marketable equity securities and certain mortgages receivable, the most significant being our mortgage receivable investment in the Sears Tower. The disclosure of fair value of the Sears Tower mortgage receivable is based on estimated future cash flows, expected risk adjusted rates of return and other factors, all of which are subject to uncertainty. Accordingly, other fair values are possible.

We review, on a regular basis but not less than annually, or when events or circumstances occur, for impairment to our mortgages receivable. Impairment is recognized when the carrying values of the mortgages receivable will not be recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and the fair values of the collateral assets are insufficient to cover the obligations and encumbrances, including the carrying values of the mortgages receivable, in a sale between unrelated parties in the normal course of business. When a mortgage is considered impaired, an impairment charge is measured based on the present value of the expected future cash flows discounted at the effective rate of the mortgage or if the cash flows cannot be predicted with reasonable reliability, then the impaired mortgage is valued at the fair value of the underlying collateral. These estimates of future cash flow and fair values could vary and result in a significantly different assessment of impairment.

Revenue Recognition

Estimates are used to establish amounts receivable from tenants for such things as common area maintenance, real estate taxes and other cost recoveries. In addition, an estimate is made with respect to our provision for allowance for doubtful accounts receivable. The allowance for doubtful accounts reflects our estimate of the amounts of the recorded accounts receivable at the balance sheet date that will not be realized from cash receipts in subsequent periods. If cash receipts in subsequent periods vary from our estimates, or if our tenants' financial condition deteriorates as a result of operating difficulties, additional provisions to increase the allowance may be required.

Income Taxes

Historically, prior to electing REIT status, as part of the process of preparing our consolidated financial statements we estimated our income tax expense and required liabilities. This process involved us estimating our current tax expense taking into consideration our tax planning strategies. Significant judgment is required by us in determining our estimated deferred tax liability, and ultimate liabilities for income taxes could be different from the amounts recorded.

Results of Operations

The following discussion is based on our combined consolidated financial statements for the years ended December 31, 2001, 2000 and 1999.

The combined consolidated financial statements present all of TrizecHahn Corporation's U.S. holdings, substantially all of which are owned and operated by Trizec Properties and TrizecHahn Developments Inc., TrizecHahn Corporation's two primary U.S. operating and development companies. The combined entities and their subsidiaries are under the common control of TrizecHahn Corporation and have been presented utilizing the historical cost basis of TrizecHahn Corporation.

We have had significant acquisition and disposition activity in our property portfolio over the last three years. The table that follows is a summary of our acquisition and disposition activity from January 1, 1999 to December 31, 2001 and reflects our total portfolio at December 31, 2001. The buildings and total square feet shown include properties that we own in joint ventures with other partners and reflect the total square footage of the properties and the square footage owned by us based on our pro rata economic ownership in the respective joint venture or managed property.

Properties as of:	Office			Retail/Entertainment		
	Properties	Total	Pro rata	Properties	Total	Pro rata
		Sq.Ft.	Owned		Sq.Ft.	Sq.Ft.
		(in thousands)			(in thousands)	
December 31, 1998	87	48,054	39,796	-	-	-
Acquisitions	3	4,026	4,026	-	-	-
Dispositions	(1)	(97)	(97)	-	-	-
Developments placed on-stream	-	-	-	1	363	363
December 31, 1999	89	51,983	43,725	1	363	363
Acquisitions	-	-	-	-	-	-
Dispositions	(12)	(3,058)	(3,058)	(1)	(363)	(363)
Developments and additional space placed on-stream	1	678	678	1	475	475
Reclassification to held for development	(1)	(245)	(196)	-	-	-
Re-measurement	-	473	367	-	-	-
December 31, 2000	77	49,831	41,516	1	475	475
Acquisitions	3	818	818	-	-	-
Dispositions	(4)	(1,937)	(1,161)	-	-	-
Additional space placed on-stream	-	150	150	3	1,810	1,601
December 31, 2001	<u>76</u>	<u>48,862</u>	<u>41,323</u>	<u>4</u>	<u>2,285</u>	<u>2,076</u>

As a result of the significant acquisition and disposition activity, the financial information presented shows significant changes in revenues and expenses from period to period, and we do not believe our period to period financial data in isolation are necessarily comparable. Accordingly, the analysis that follows focuses on changes resulting from properties that we owned for the entire time during both periods, which we refer to as our “comparable portfolio,” and the changes attributable to our total portfolio.

In the financial information that follows, property revenue includes rental revenue, recoveries from tenants for certain expenses, fee income and parking and other revenue. Property operating expenses include property operating expenses and property taxes, and excludes depreciation and amortization expense. Property operating income is defined as property revenues less property operating expenses, before general and administrative expense, depreciation and amortization, interest expense and income taxes.

Comparison of Year Ended December 31, 2001 to Year Ended December 31, 2000

The following is a table comparing our summarized operating results for the periods, including other selected information.

	Year Ended		Increase/ (Decrease)	% Change
	December 31,	December 31,		
	2001	2000		
	(dollars in thousands)			
Property revenues	\$ 912,274	\$ 870,550	\$ 41,724	4.8%
Interest income	15,677	8,480	7,197	84.9
Total revenues	927,951	879,030	48,921	5.6
Property operating expenses	378,951	355,658	23,293	6.5
General and administrative	25,854	18,429	7,425	40.3
Interest expense	152,759	265,680	(112,921)	(42.5)
Depreciation and amortization	161,078	154,118	6,960	4.5
Reorganization costs	15,922	6,680	9,242	138.4
Losses from securities investments	15,371	-	15,371	-
Derivative losses	456	-	456	-
Total expenses	750,391	800,565	(50,174)	(6.3)
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, gain (loss) on sale of real estate and allowance for loss on properties held for disposition, income taxes, extraordinary item and cumulative effect of a change in accounting principle	177,560	78,465	99,095	126.3
Minority interest	433	580	(147)	(25.3)
Income from unconsolidated real estate joint ventures	12,952	19,417	(6,465)	(33.3)
Gain (loss) on sale of real estate and allowance for loss on properties held for disposition	(307,044)	33,185	(340,229)	(1,025.2)
(Provision for) benefit from income and other taxes	(13,795)	252,840	(266,635)	(105.5)
Extraordinary item	(17,966)	(1,491)	(16,475)	(1,105.0)
Cumulative effect of a change in accounting principle	(4,631)	-	(4,631)	
Net income	\$(152,491)	\$ 382,996	\$(535,487)	(139.8)%
Straight line rent adjustment	\$ 18,399	\$ 24,458	\$ (6,059)	(24.8)%
Lease termination fees	\$ 21,217	\$ 5,575	\$ 15,544	274.0 %

The table below presents selected operating information for our total portfolio and for our comparable portfolio of 71 office properties, which we owned both at December 31, 2001 and 2000, and in each case for the full year.

	Year Ended		Increase/ (Decrease)	% Change
	December 31,			
	2001	2000		
	(dollars in thousands)			
Total Portfolio				
Office				
Property revenues	\$ 873,340	\$ 858,552	\$ 14,788	1.7%
Property operating expenses	<u>362,148</u>	<u>350,334</u>	<u>11,814</u>	<u>3.4</u>
Property operating income	<u>\$ 511,192</u>	<u>\$ 508,218</u>	<u>\$ 2,974</u>	<u>0.6%</u>
Retail				
Property revenues	\$ 38,934	\$ 11,998	\$ 26,936	224.5%
Property operating expenses	<u>16,803</u>	<u>5,324</u>	<u>11,479</u>	<u>215.6</u>
Property operating income	<u>\$ 22,131</u>	<u>\$ 6,674</u>	<u>\$ 15,457</u>	<u>231.6%</u>
Comparable Portfolio				
Office				
Property revenues	\$ 812,302	\$ 769,069	\$ 43,233	5.6%
Property operating expenses	<u>354,559</u>	<u>335,258</u>	<u>19,301</u>	<u>5.8</u>
Property operating income	<u>\$ 457,743</u>	<u>\$ 433,811</u>	<u>\$ 23,932</u>	<u>5.5%</u>
Income from unconsolidated real estate joint ventures	<u>\$ 15,776</u>	<u>\$ 14,925</u>	<u>\$ 851</u>	<u>5.7%</u>

The supply of, and demand for, office space affect the performance of our office property portfolio. Macroeconomic conditions, such as current and expected trends in the economy, business and consumer confidence and employment levels, drive this demand.

During the year, the U.S. economy continued to show weakness. According to Cushman and Wakefield, the national CBD vacancy rate was 12.0% at December 31, 2001 up from 7.1% at year-end 2000. The overall national suburban vacancy rate was 17.0% at year-end 2001, its highest level in seven years.

During the course of the year, the office space demand profile continued to weaken as the manufacturing and high-tech sector slowdown spread throughout the economy across all industries. Furthermore, the September 2001 terrorist attacks in New York and Washington, D.C. and related circumstances have created additional economic uncertainty and have reduced management's expectations about the level of near-term growth. With substantial amounts of sublease space being returned to office markets in 2001, many of the top CBD markets have moved toward a condition where supply meets or exceeds demand for office space.

Our portfolio is currently insured against acts of terrorism, subject to policy limits and deductibles and subject to exceptions for terrorist attacks that constitute acts of war. The term of this insurance policy extends through the end of 2002. We cannot ensure that insurance coverage for acts of terrorism will continue to be available on commercially acceptable terms beyond 2002. Insurance costs are expected to increase significantly beyond 2002. There can be no assurance that third party insurers will be able to maintain reinsurance sufficient to cover any losses that may be incurred as a result of terrorist acts. In addition, the level of security has been increased at certain properties in response to the terrorist attacks. We expect to be able to pass on a significant portion of these cost increases to tenants in the form of increased rents.

On December 3, 2001, a group of Enron Corporation companies filed for Chapter 11 reorganization. Enron is our fourth largest tenant contributing 2% of NOI and occupying 793,000 square feet, primarily at the Allen Center

in Houston, Texas. At December 31, 2001, Enron's average in-place net rent was approximately \$9.30 per square foot, while current estimated market rents for the space are approximately \$14 to \$15 per square foot. At this time, we expect Enron will reject its leases with us. The impact on our property operating income will depend on how quickly we are able to re-lease this space.

Our management believes our portfolio is well positioned to continue to perform through these more uncertain economic times due to its diversified tenant and geographic asset base, primarily located in CBD high job-growth markets in the United States.

Property Operating Income – Property Revenue Less Property Operating Expense

The \$41.7 million total increase in property revenues for the comparable period is the result of improved performance in the core market office properties, a higher level of termination fees and the part year impact of acquisitions and on-stream development properties, offset by the impact of the disposition of 16 mature office properties with low-growth profiles.

For our total portfolio of 76 properties for the year ended December 31, 2001, we leased 8.0 million square feet (7.2 million square feet on a pro rata basis) and occupancy increased to 94.3% compared with 94.2% at December 31, 2000, primarily due to the impact of the three properties acquired during the second quarter of 2001, as they ended the year at an average occupancy of 98%. We also achieved a \$1.03 per square foot (\$0.81 per square foot on a pro rata basis) increase in net rental rates on new and renewal leasing, reflecting the impact of space rolling over at properties with in-place rents below current market levels.

For the comparable portfolio of 71 properties, occupancy decreased from 94.4% to 94.1% and rental rates increased in key markets such as the Washington D.C. area, New York and Chicago. The average monthly occupancy for these 71 properties was 92.6% compared to 91.8% in 2000. For our 100% owned comparable portfolio of 63 properties, property revenue increased \$43.2 million or 5.6%. Excluding termination fees from both periods, property revenue increased \$37.0 million or 4.8%.

The acquisition of three Class A office buildings during the second quarter of 2001 increased property revenue by \$16.8 million. The buildings are located in core markets and were acquired for a purchase price of \$182 million as a tax efficient re-investment of proceeds from non-core asset dispositions. 550 West Washington in Chicago with 372,000 square feet is 96% occupied. Its average lease term is 8.3 years with no expirations in the first four years, and 4% expiring in the fifth year. 1225 Connecticut in Washington D.C. with 224,000 square feet is 99.8% occupied by Ernst & Young under a lease expiring in mid-2007. Two Ballston in Arlington, Virginia with 222,000 square feet is 100% occupied with an average lease term of 3.9 years.

In addition, current period revenue benefited \$17.3 million from the completion in late 2000 of 225,000 square feet at Beaumeade Corporate Park in Washington, D.C. and the 184,000-square-foot One Reston Place in Reston, Virginia. These buildings were both 100% leased at completion. Also contributing to this increase was 150,000 square feet at 3100 Interstate North Parkway in Marietta, Georgia, which was completed and came on-stream 86% leased in January 2001.

During the period, as planned we sold four non-core office properties. These sales, combined with 12 properties sold in the second half of 2000, reduced property rental revenue by \$62.5 million for the current period.

Included in the above property revenue analysis are lease termination fees. Lease termination fees are an element of ongoing real estate ownership, and for the year ended December 31, 2001, we recorded \$21.2 million of termination fees (2000 – \$5.7 million), which is included in parking and other revenue. These fees relate to specific tenants who have paid a fee to terminate their lease obligations before the end of the contractual term of their leases. In 2001, a \$9.4 million fee received from a tenant which leased all 184,000 square feet at One Reston Place in Reston, Virginia was recorded. In addition, a \$4.2 million fee received from a tenant at Galleria Towers in Dallas was also recorded. We actively manage these situations by maintaining close relationships with our tenants in order to better understand their short and long-term space needs so that we may reclaim space with below-market rent in buildings with a high probability of subsequent lease-up. Historically, annual amounts have averaged approximately

\$6 million for the total portfolio; however, we cannot predict accurately the timing or amounts of future lease termination fees.

Retail property revenue increased \$26.9 million due to the completion of all three development projects and our gaining control of the Desert Passage retail/entertainment joint venture project on March 31, 2001 and, as of April 1, 2001, consolidating 100% of its operating results, offset by the impact of the disposition of Fashion Outlet of Las Vegas in September 2000. Previously, as a jointly controlled partnership, 65% of the operating results from Desert Passage, from when the project was completed in August 2000, were included in income from unconsolidated real estate joint ventures. The revised project partnership agreement resulted in us gaining control over project operations and disposition, with the minority partner participating only in project distributions, primarily those arising upon disposition of the project. The retail/entertainment component of Hollywood & Highland in Los Angeles opened on November 8, 2001 and at year end it was 88% leased with occupancy at 72%. Paseo Colorado opened September 28, 2001 and at year end it was 93% leased with occupancy at 84% .

Property operating expenses, which include real estate taxes, utilities, repairs and maintenance, cleaning and other property related expenses and exclude depreciation and amortization expense, increased due to the portfolio composition changes described above. Excluding the impact on revenues of lease termination fees our comparable office portfolio gross margin decreased to 55.7% from 56.1% on a year-over-year basis. For our comparable portfolio, operating expenses increased due to a higher level of bad debt expense, an increase in property taxes due to higher assessments and increases in utilities, mainly electricity expense.

Interest Income

The \$7.2 million increase in interest income for the year ended December 31, 2001 compared with the prior year period reflects interest income earned on higher average cash balances resulting from disposition and refinancing proceeds.

General and Administrative Expense and Reorganization Costs

General and administrative expense includes expenses for corporate and portfolio asset management functions. Expenses for property management and fee-based services are recorded as property operating expenses.

Based on TrizecHahn Corporation's strategic plan, we targeted general and administrative expense savings to be derived from our focus on the office portfolio and from both functional and office location consolidations. As a result of a comprehensive review of our operations for this purpose, we initiated a reorganization plan to simplify our management structure and centralize accounting, payroll and information services functions in Chicago. The reorganization plan will result in a net reduction of approximately 85 office employees by the end of 2002 in these areas. During the year we recorded as reorganization costs a charge of \$13.9 million, to provide for employee severance, benefits and other costs associated with announced job redundancies as result of implementing the reorganization plan. Included in the reorganization charge are \$2.2 million of non-cash costs, which include \$1.2 million for the accelerated recognition of a portion of the entitlements pursuant to the escrowed share grant arrangement for certain U.S. employees and \$1.0 million for the write-off of furniture, fixtures and leasehold costs at redundant locations.

In addition, in 2001, for REIT qualification purposes, we issued and donated 400 shares of common stock to each of 100 charitable organizations. The aggregate 40,000 shares of common stock have been estimated by management to have a fair value of approximately \$2 million, and such amount has been recorded as a donation expense and included in reorganization costs.

General and administrative expenses increased by approximately \$7.4 million for the year ended December 31, 2001 compared with the prior year period, due primarily to the \$3.2 million impact of share-based compensation arrangements, which were introduced in late 2000 and increased professional fees. General and administrative expenses for the year ended December 31, 2001 also includes \$2.0 million of transition costs associated with implementing the reorganization plan. These costs were incurred for relocation, hiring and consulting services in connection with executing the plan.

Interest expense

Interest expense decreased by \$112.9 million for the year ended December 31, 2001 compared with the same prior year period primarily due to the \$86.2 million impact of \$750 million of interest bearing parent advances, which were settled for the issuance of equity in December 2000. In addition, interest expense savings of \$15.7 million from the disposition of non-core properties was partially offset by the \$12.0 million impact of acquisitions and on-stream developments. The refinancing in May 2001, in which a special-purpose vehicle created by one of our subsidiaries issued \$1.44 billion of commercial mortgage pass-through certificates, the proceeds of which were used to repay \$1.16 billion of existing loans, generated \$1.6 million of interest expense on the incremental refinancing proceeds. Interest expense also benefited from incremental interest capitalization of \$8.8 million on equity invested in the retail/entertainment projects under development and the \$15.8 million impact of a more favorable variable interest rate environment.

Depreciation and Amortization

For the year ended December 31, 2001, depreciation expense was \$7.0 million higher than in the same prior year period due to the impact of acquisitions, on-stream properties and increased depreciation and amortization expense related to ongoing capitalized tenant installation costs, including amortization of deferred leasing costs, offset by the impact of dispositions.

Properties classified as held for disposition are not depreciated. The impact if properties held for disposition were depreciated would have been to increase depreciation and amortization expense for the year ended December 31, 2001 by \$7.3 million.

Losses from Securities Investments

In 2001, we fully provided for our securities investments in certain building telecommunication and service providers, recording a \$15.4 million charge, net of \$3.5 million of deferred revenue, as events and circumstances confirmed that the decline in value of these assets was considered to be other than temporary. This provision comprised our investments in Allied Riser Communications Corporation, Broadband Office Inc., Cypress Communications Inc., OnSite Access Inc., and Captivate Network, Inc.

Derivative Losses

As a result of the adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," we recorded derivative losses of \$0.5 million during the period, which represents the ineffective portion of all cash flow hedges.

Income from Unconsolidated Real Estate Joint Ventures

Income from unconsolidated real estate joint ventures decreased \$6.5 million primarily due to the impact of interest expense attributable to the Desert Passage retail/entertainment project. As previously noted, the project came on-stream in August 2000 and was accounted for as a joint venture until March 31, 2001.

Gain (loss) on Sales of Real Estate and Allowance for Loss on Properties Held for Disposition

During the current period, we recorded a net loss of \$2.1 million related to the sale of four non-core office properties and residual land sites. The prior year gain of \$36.9 million related primarily to the sale of twelve non-core office properties.

Two of the retail/entertainment properties that we are holding for disposition, Hollywood & Highland in Los Angeles, California, and Desert Passage in Las Vegas, Nevada, depend on tourism for a significant portion of their visitors. The September 2001 terrorist attacks significantly impacted the levels of tourism in Los Angeles and Las Vegas. In addition, the Aladdin Hotel and Casino, which adjoins Desert Passage, filed for a Chapter 11 reorganization on September 28, 2001, negatively impacting the number of visitors at Desert Passage. During the

fourth quarter of 2001, we commissioned third-party appraisals of our retail/entertainment properties. These appraisals indicated a decline in the fair value of these assets and accordingly, for the year ended December 31, 2001, we recorded an allowance for loss of \$239.4 million to reduce the carrying value of these assets. Of this amount, \$217.0 million relates to the Hollywood & Highland complex and \$22.4 million relates to Desert Passage and certain remnant retail assets.

We acquired three technology center development properties in Seattle, Boston and Chicago, in late 2000. During 2001, we explored alternatives other than developing these properties as technology centers. After considering these alternatives, we decided to dispose of these properties in the near term in an orderly manner. As a result the we recorded an allowance for loss of \$62.9 million. In addition, an allowance for loss of \$2.2 million was recorded related to the planned sale of two non-core U.S. office assets. The five properties have been reclassified as properties held for disposition.

Income and Other Taxes

The year over year change in income tax expense of \$266.6 million is primarily attributable to the fact that Trizec Properties determined to elect REIT status effective as of January 1, 2001. Special counsel has opined that, as a REIT, Trizec Properties should not be liable in the future for U.S. income taxes on the earnings from our U.S. office portfolio, to the extent that the requisite amount of those earnings is distributed. Accordingly, during 2001 we did not provide for federal income taxes in the United States related to our office properties operations. In 2000, as we were not a REIT, our effective tax rate was 39.45%. At December 31, 2000, as Trizec Properties would not be liable for U.S. income taxes, it recorded a credit to income of \$311.7 million representing the elimination of a net deferred tax liability position relating to future years.

TrizecHahn Developments Inc., or THDI, was outside the Trizec Properties group at December 31, 2001, but as part of the reorganization of TrizecHahn Corporation it will be contributed to Trizec Properties prior to the effective date of the reorganization and accordingly, THDI will no longer provide for federal income taxes. For the year ended December 31, 2001, we recorded a \$1.6 million expense to eliminate a net deferred tax liability position relating to future years upon the planned contribution of THDI to Trizec Properties.

Included in income and other taxes are franchise, capital and alternative minimum taxes related to ongoing real estate operations. These current operating taxes for the year ended December 31, 2001 were \$4.9 million compared with \$9.4 million in 2000.

Extraordinary Items

On May 17, 2001, we retired early \$1.16 billion of existing long-term debt, which we funded through the issuance by a special-purpose vehicle created by one of our subsidiaries of \$1.44 billion of commercial mortgage pass-through certificates. As a consequence of these early retirements, we recorded an extraordinary loss of \$18.0 million, consisting of contractual redemption premiums of \$13.8 million and the write-off of unamortized deferred financing costs of \$4.2 million.

Cumulative Effect of Change in Accounting Principle

As a consequence of implementing SFAS 133, we wrote off deferred financing charges of \$0.3 million and reclassified the unrealized \$4.4 million loss related to certain telecommunication securities from accumulated other comprehensive loss, a component of equity, to cumulative effect of a change in accounting principle.

Comparison of the Year Ended December 31, 2000 to the Year Ended December 31, 1999

The following is a table comparing our summarized operating results for the years, including other selected information.

	Year Ended		Increase/ (Decrease)	% Change
	2000	December 31, 1999		
	(dollars in thousands)			
Property revenues	\$870,550	\$ 801,702	\$ 68,848	8.6%
Interest income	8,480	7,118	1,362	19.1
Total revenues	879,030	808,820	70,210	8.7
Property operating expenses	355,658	333,941	21,717	6.5
General and administrative	18,429	16,725	1,704	10.2
Interest expense	265,680	234,992	30,688	13.1
Depreciation and amortization	154,118	133,352	20,766	15.6
Reorganization costs	6,680	4,950	1,730	34.9
Total expenses	800,565	723,960	76,605	10.6
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, gain (loss) on sale of real estate and allowance for loss on properties held for disposition, income taxes and extraordinary item	78,465	84,860	(6,395)	(7.5)
Minority interest	580	1,459	(879)	(60.2)
Income from unconsolidated real estate joint ventures	19,417	16,207	3,210	19.8
Gain (loss) on sale of real estate and allowance for loss on properties held for disposition	33,185	(41,373)	74,558	180.2
(Provision for) benefit from income and other taxes	252,840	(22,815)	275,655	1,208.2
Extraordinary item	(1,491)	-	(1,491)	-
Net income	\$382,996	\$ 38,338	\$ 344,658	899.0%
Straight line rent adjustment	\$ 24,458	\$ 30,787	\$ (6,329)	(20.6)%
Lease termination fees	\$ 5,575	\$ 17,498	\$ (11,923)	(68.1)%

The table below presents selected operating information for our total portfolio and for our comparable portfolio of 71 properties that were owned both at December 31, 2000 and 1999 and in each case for the full year.

	Year Ended		Increase/ (Decrease)	% Change
	December 31,			
	2000	1999		
	(dollars in thousands)			
Total Portfolio				
Office				
Property revenues	\$ 858,552	\$ 794,197	\$ 64,355	8.1%
Property operating expenses	350,334	330,819	19,515	5.9
Property operating income	\$ 508,218	\$ 463,378	\$ 44,840	9.7%
Retail				
Property revenues	\$ 11,998	\$ 7,505	\$ 4,493	59.9%
Property operating expenses	5,324	3,122	2,202	70.5
Property operating income	\$ 6,674	\$ 4,383	\$ 2,291	52.3%
Comparable Portfolio				
Office				
Property revenues	\$ 680,637	\$ 642,698	\$ 37,939	5.9%
Property operating expenses	301,480	289,737	11,743	4.1
Property operating income	\$ 379,157	\$ 352,961	\$ 26,196	7.4%
Income from unconsolidated real estate joint ventures	\$ 14,925	\$ 14,939	\$ (14)	-

Property Operating Income – Property Revenue less Property Operating Expense

In 2000, continued broad-based improvement in the economy resulted in generally lower vacancy rates, as excess supply in the U.S. CBD office markets was gradually depleted as a result of positive absorption.

The increase of \$68.8 million in property revenues in 2000 compared with 1999 was the result of improved performance in the core market office properties and the full year benefit of acquisitions made in the first quarter of 1999, offset by the sale of 12 mature properties with low-growth profiles and a significantly reduced level of termination fees as compared to the prior year.

For our total portfolio of 77 properties, for the year ended December 31, 2000, we signed leases totaling 8.2 million square feet (7.6 million square feet on a pro rata basis) and increased occupancy to 94.2% compared to 91.4% at December 31, 1999. We also achieved a \$2.00 per square foot (\$2.60 per square foot on a pro rata basis) increase in net rental rates on new and renewal leases as the portfolio benefited from its presence in downtown office buildings located in strong major markets.

For our comparable portfolio of 71 properties, revenue growth was attributable to increased occupancy and rental rates. More specifically the growth reflects increased occupancy of 3 percentage points to 93.6% and increased rental rates in key markets such as New York, Houston and Chicago. For our 100% owned comparable portfolio of 63 properties, property revenue increased \$37.9 million or 5.9%. Excluding termination fees from both periods, property revenue increased \$49.7 million or 7.9%.

Lease termination fees are an element of ongoing real estate ownership. In 2000, termination fees were \$5.6 million. In 1999, termination fees were \$17.5 million including an \$8.0 million fee from a tenant at 3700 Bay Area Boulevard in Houston. These fees relate to specific tenants who have paid a fee to terminate their lease obligations before the end of the contractual term of their leases. As a practice, we actively manage these situations by maintaining close relationships with our tenants in order to better understand their short and long-term space needs so that we may reclaim space with below-market rent in buildings with a high probability of subsequent lease-

up. Historically, annual amounts have averaged approximately \$6 million for the total portfolio; however, we cannot predict with certainty the timing or amounts of future lease termination fees.

Property revenue in 2000 also benefited by \$25.8 million from the full year impact of 4.0 million square feet of acquisitions at three properties early in 1999. In addition, revenue increased by \$6.3 million due to the completion, in late 2000, of 225,000 square feet at Beaumeade Corporate Park in Washington, D.C. and the 184,000-square-foot One Reston Place in Reston, Virginia. Also contributing to this increase, earlier in the year, a 269,000-square-foot building at the Palisades complex in Atlanta, Georgia came on-stream. The sale of 12 non-core properties, comprising 3.1 million square feet, during the second half of 2000 reduced property rental revenue by \$5.7 million.

The increase in retail property revenue of \$4.5 million primarily reflects the impact of results from Fashion Outlet of Las Vegas prior to its sale in September 2000. Prior to August 1999, as a jointly controlled partnership, operating results were included in income from unconsolidated real estate joint ventures. The 5% joint venture position was acquired in order to facilitate the sale of this non-core asset.

Property operating expenses, which include property taxes, utilities, repairs and maintenance, cleaning and other property related expenses and exclude depreciation and amortization expense, increased due to the portfolio composition changes described above. Excluding the impact on revenues of lease termination fees, our comparable office portfolio gross margin improved to 55.4% from 53.7% on a year-over-year basis. For our comparable portfolio, operating expenses increased mainly due to an increase in property taxes due to higher assessments in certain markets.

Interest Income

The \$1.4 million increase in interest income reflects the impact of interest income earned on the proceeds from the disposition of 12 non-core office properties.

General and Administrative Expense

General and administrative expense includes expenses for corporate and portfolio asset management functions. Expenses for property management and fee-based services are recorded as property operating expenses. General and administrative expense increased by \$1.7 million in 2000 compared to the prior year, due to the impact of share-based compensation arrangements that were introduced in November 2000 and costs associated with pursuit of technology center development sites in North America.

Interest Expense

Interest expense in 2000 increased by \$30.7 million from 1999 levels primarily due to a \$24.6 million increase in inter-company interest expense resulting from, on average approximately \$120 million of higher levels of interest bearing parent advances, with all advances for the year at higher interest rates than the prior year. The balance of the increase was attributable to the \$6.9 million full year impact of the acquisitions completed in the first quarter of 1999 and the \$9.0 million impact of higher average debt balances during 2000, offset by partial year savings of \$3.0 million related to debt repayments from the proceeds of dispositions in the later part of 2000 and the benefit of incremental capitalization of \$7.0 million on equity invested in the retail/entertainment projects under development.

Depreciation and Amortization

Depreciation expense in 2000 was \$20.8 million higher than the prior year due, in part, to the full year impact of the acquisitions made in early 1999 as well as the effects of development properties coming on-stream, offset by the impact of dispositions. Depreciation and amortization expense also increased due to additional tenant installation costs, including deferred leasing costs, which are amortized over the term of the respective lease.

Reorganization Costs

In 2000, we recorded a charge of \$4.2 million for employee severance and benefits associated with the wind down of our retail/entertainment business. In addition, in each of 2000 and 1999, we incurred incremental professional advisory fees of \$2.5 million and \$5.0 million, respectively, in order to explore certain strategic transactions and to optimize our corporate structure for tax purposes, including REIT qualification.

Income from Unconsolidated Real Estate Joint Ventures

Income from unconsolidated real estate joint ventures increased by \$3.2 million primarily due to the impact of the Desert Passage retail entertainment project coming on-stream in August 2000.

Gain (Loss) on Sales of Real Estate and Allowance for Loss on Properties Held for Disposition

In 2000, we recorded a gain of \$36.9 million related to the sale of 12 non-core office properties and one retail outlet mall. At the end of 2000, consistent with our strategic plan to focus on the office business we decided to divest four non-core office properties and our three retail/entertainment centers. These properties were designated as held for disposition and a provision for loss of \$3.7 million was recorded to write-down the carrying value of the office properties to net realizable value. As such, the total net gain for 2000 was \$33.2 million. In 1999, we recorded a loss of \$41.4 million related to the sale of retail development sites and recorded a provision for loss on the planned sale of Fashion Outlet of Las Vegas.

Income and Other Taxes

Income and other taxes are significantly affected on a comparative basis by the \$311.7 million tax benefit related to Trizec Properties's decision, at the end of 2000, to elect to become a REIT for U.S. federal income tax purposes commencing in 2001. Special counsel has opined that, as a REIT, we generally will not be liable in the future for U.S. income taxes on our earnings to the extent that the requisite amount of those earnings is distributed. As Trizec Properties will not be liable for U.S. income taxes, the existing \$365.0 million net deferred tax liability position relating to future years was eliminated at December 31, 2000 and credited to income. This deferred tax recovery was offset by the recording of a \$53.3 million liability payable in fiscal 2002 resulting from the deemed liquidation, as a result of Trizec Properties electing REIT status, of all of our subsidiary corporations.

Excluding the impact of the decision to elect REIT status, the tax provision increased \$36.0 million. This was due primarily to deferred tax expense recorded on gains in 2000 on property sales as compared to deferred tax benefits recorded on losses from property sales in 1999. In addition, franchise, capital and alternative minimum taxes increased by \$8.2 million due to the transitional impact of modifying our corporate ownership structure in 1999 to facilitate future REIT conversion.

Extraordinary Items

In conjunction with property sales in 2000, we incurred prepayment premiums and wrote off unamortized deferred financing costs for the early retirement of debt in the amount of \$1.5 million, net of a tax benefit of \$0.8 million.

Liquidity and Capital Resources

Our objective is to ensure, in advance, that there are ample resources to fund ongoing operating expenses, capital expenditures, debt service requirements, current development costs not covered by construction loans and the distributions required to maintain REIT status. In the next year we believe our needs will be fully funded through existing cash balances and cash flows provided by operating and financing activities.

Beyond the next year we expect to meet liquidity requirements for scheduled debt maturities, non-recurring capital improvements and future property acquisitions or developments through the refinancing of mortgage debt

and cash flows from operations. In addition, dispositions of properties, in particular the planned sale of the three retail/entertainment centers once lease-up and stabilization is complete, will provide additional liquidity.

Financial flexibility will be provided through revolving credit facilities. On August 10, 2001 our \$300 million credit facility matured. We have negotiated a three-year, \$350 million senior unsecured revolving credit facility. In December 2001, \$200 million of the facility was committed and closed with a group of four banks. The remaining \$150 million of the facility has been syndicated to a group of seven banks and closed in early January 2002. The interest rate applicable to borrowing under the credit facility is to be equal to the LIBOR rate or the base rate in effect from time-to-time plus a spread, which will be dependent on our total leverage, or, if we have achieved an investment grade credit-rating from two rating agencies, on our credit rating.

The amount of the credit facility available at any time is determined by the unencumbered properties that we, or our subsidiaries that guarantee the credit facility, own and that satisfy certain conditions of eligible properties. The amount currently eligible to be borrowed is \$314 million. We are subject to covenants customary for credit facilities of this nature, including financial covenants, restriction on other indebtedness, restriction on encumbrances of properties that we use in determining our borrowing capacity and certain customary investment restrictions. The credit facility is available for general corporate purposes, including dividends and distributions to our stockholders.

For REIT qualification purposes and to provide sufficient funding required by TrizecHahn to complete the corporate reorganization, we expect to make net distributions of approximately \$511 million prior to the effective date of the corporate reorganization, after deducting repayment of advances due from our parent and affiliates, which will be repaid prior to the completion of the corporate reorganization. These distributions and repayments will be funded from a combination of cash on hand, and borrowings under our revolving credit facility. We currently expect to initially borrow approximately \$215 million on that facility. The ultimate amount to be borrowed under the revolving credit facility will be determined by such variables as the actual amount of the distributions, and the actual cash position of the Company at the time the distributions are made. Advances due to our parent and affiliates in respect of THDI in the amount of approximately \$237 million will be settled in exchange for newly issued shares when THDI is contributed back to us prior to the completion of the corporate reorganization. We will not rely on advances from our parent and affiliated companies subsequent to the corporate reorganization.

After completion of the corporate reorganization, we expect to make three quarterly dividend distributions of \$0.0875 per share to the holders of our common stock in the final three quarters of 2002. Commencing in the first quarter of 2003 and thereafter, we intend to make distributions to the holders of our common stock and special voting stock at least equal to the minimum amount required to maintain REIT status each year through regular quarterly dividends.

After dividend distributions, our remaining cash from operations will not be sufficient to allow us to retire all of our debt as it comes due. Accordingly, we will be required to refinance maturing debt or repay it utilizing proceeds from property dispositions or the issuance of equity securities. There can be no assurance that such financing or proceeds will be available or be available on economical terms when necessary in the future.

At December 31, 2001 we had \$297.4 million in cash and cash equivalents. The increase since December 31, 1998 of \$218.9 million is a result of the following cash flows:

	Years Ended December 31,			Total Period
	2001	2000	1999	
	(dollars in thousands)			
Cash provided by operating activities	\$ 462,948	\$ 113,121	\$ 490,705	\$1,066,774
Cash used for investing activities	(596,988)	(52,724)	(873,176)	(1,522,888)
Cash provided by (used in) financing activities	361,279	(70,554)	384,250	674,975
	<u>\$ 227,239</u>	<u>\$ (10,157)</u>	<u>\$ 1,779</u>	<u>\$ 218,861</u>

The increase in cash provided by operating activities in 2001 was primarily due to an increase in operating results from the core market portfolio and three acquisitions, offset by the sale of 16 non-core office properties during 2000 and 2001. Operating cash flows are impacted by "like kind exchange" transactions, as disposition proceeds of \$87.4 million in 2000 and \$294.2 million in 1998, which were contributed to escrow and restricted cash accounts, were released in the subsequent period.

Net cash used for investing activities reflects the ongoing impact of expenditures on recurring and non-recurring tenant installation costs and capital expenditures and the impact of acquisitions, developments and dispositions.

Tenant Installation Costs and Capital Expenditures

Tenant Installation Costs

Our office properties require periodic investments of capital for tenant installation costs related to new and renewal leasing. For comparative purposes, the absolute total dollar amount of tenant installation costs in any given period is less relevant than the cost on a per square foot basis. This is because the total is impacted by the square footage both leased and occupied in any given period. Tenant installation costs consist of tenant allowances and leasing costs. Leasing costs include leasing commissions paid to third-party brokers representing tenants and costs associated with dedicated regional leasing teams who represent us and deal with tenant representatives. The following table reflects tenant installation costs for the total portfolio, including our share of such costs incurred by non-consolidated joint ventures, for both new and renewal office leases that commenced during the respective year, regardless of when such costs were actually paid. The square feet leased data in the table represents the pro rata owned share of square feet leased.

	Years Ended December 31,		
	2001	2000	1999
	(in millions, except per square foot amounts)		
Square feet leased			
- new leasing	4.5	4.8	3.7
- renewal leasing	2.7	2.8	2.7
Tenant installation costs	\$106.4	\$ 88.0	\$ 102.4
Tenant installation costs per square foot	\$ 14.80	\$ 11.60	\$ 16.00
Tenant allowance costs per square foot	\$ 9.40	\$ 6.60	\$ 10.00

For the year ended December 31, 2001, of the \$106.4 million office tenant installation costs, approximately \$15.1 million or \$5.60 per square foot (year ended December 31, 2000 – \$16 million or \$6.00 per square foot; year ended December 31, 1999 – \$31 million or \$11.00 per square foot) was incurred to renew existing tenants.

During the later half of 2001, significant scheduled large tenant lease expirations occurred in the Atlanta, Dallas, Washington, D.C. and Houston portfolios and as such, tenant installation costs on a per square foot basis are anticipated to rise as we re-lease these large blocks of space.

Capital Expenditures

To maintain the quality of our properties and preserve competitiveness and long-term value, we pursue an ongoing program of capital expenditures, certain of which are not recoverable from tenants. For the year ended December 31, 2001, recurring capital expenditures for the total portfolio, including our share of such expenditures incurred by non-consolidated joint ventures, were \$8.0 million or \$0.19 per square foot, compared with \$8.3 million or \$0.19 per square foot in 2000 (1999 - \$9.5 million or \$0.17 per square foot). Recurring capital expenditures include for example the cost of roof replacement and the cost of replacing heating, ventilation, air conditioning and other building systems. Management believes that recurring capital expenditures for the office portfolio will average approximately \$0.15 – \$0.20 per square foot on an annual basis.

In addition to recurring capital expenditures, expenditures are made in connection with non-recurring events such as code-required enhancements and upgrades to common areas, lobbies and elevators. Furthermore, as part of our office acquisitions, we have routinely acquired and repositioned properties, many of which have required significant capital improvements due to deferred maintenance and the existence of shell space requiring initial tenant build-out at the time of acquisition. Some of these properties required substantial renovation to enable them to compete effectively. We take these capital improvement and new leasing tenant inducement costs into consideration at the time of acquisition when negotiating our purchase price. For the year ended December 31, 2001, total non-recurring capital expenditures for the total portfolio, including our share of such expenditures incurred by non-consolidated joint ventures, were \$22.3 million, compared with \$44.9 million in 2000 (1999 - \$19.8 million). Management anticipates that non-recurring capital expenditures for the existing portfolio will decline in future years as properties acquired in 1998 and 1999 are brought to standard and repositioning is completed.

Reconciliation to Combined Consolidated Statements of Cash Flows

The above information includes actual tenant installation costs, including leasing costs, and capital expenditures for the total portfolio, including our share of such costs and expenditures incurred by non-consolidated joint ventures, for leases that commenced during the periods presented. The amounts included in the combined consolidated statements of cash flows represent the cash expenditures made during the periods excluding our share of such costs and expenditures incurred by non-consolidated joint ventures. The reconciliation between the above amounts and the combined consolidated statements of cash flows is as follows:

	Years Ended December 31,		
	2001	2000	1999
	(dollars in thousands)		
Tenant installation costs, including leasing costs	\$ 106,438	\$ 87,983	\$102,381
Capital expenditures:			
Recurring	8,009	8,342	9,549
Non-recurring	22,336	44,930	19,748
	<u>136,783</u>	<u>141,255</u>	<u>131,678</u>
Pro rata joint venture activity	(22,419)	(16,430)	(21,907)
Timing differences	8,266	3,159	(10,907)
Retail activity	<u>6,024</u>	<u>1,465</u>	<u>879</u>
Total tenant improvements, leasing costs and capital expenditures per combined consolidated statement of cash flows	<u><u>\$ 128,654</u></u>	<u><u>\$129,449</u></u>	<u><u>\$ 99,743</u></u>

Acquisitions, Development and Dispositions

Acquisitions

As previously described, in the second quarter of 2001 we purchased three office properties in existing core markets for a price of approximately \$181.7 million. The net equity invested after acquisition financing of \$27.5 million was \$154.2 million. In the fourth quarter of 2001, we acquired ground lease and other obligations related to two of our Chicago office buildings for \$21.0 million, which were fully financed resulting in no net equity investment.

Developments

Development expenditures reflect completion during 2000 of Beaumeade Corporate Park in Washington, D.C., One Reston Place in Reston, Virginia and 3100 North Parkway in Marietta, Georgia for an aggregate cost of \$60.9 million.

In addition, development expenditures were incurred for One Alliance Center during 2000 and 2001. The project, located in Buckhead, Georgia, a strong sub-market in Atlanta, opened in early October 2001. This \$100 million, 560,000-square-foot building is the first phase of a four-building complex and is currently 75% leased. Major tenants include Security First, Towers Perrin and BBDO South. The remaining three phases, totaling a potential 1.2 million square feet of office space, will only be developed once substantially pre-leased.

Consistent with our strategy to focus on the core U.S. office business, we have decided to divest our non-core retail/entertainment assets. The following table sets forth key information as of December 31, 2001 with respect to the retail/entertainment properties that we are holding for disposition. Our economic interest is 100% unless otherwise noted. Total costs shown in the table are net of proceeds from the sale of land and tenant acquired space and include all direct costs, including initial costs to rent, interest expense on general and specific debt and other direct costs considered applicable. The pro rata book value at December 31, 2001, shown in the following table represent our economic share and costs net of government contributions. The data for Paseo Colorado includes 153,000 square feet owned directly by a department store anchor, and the leasing status excludes this space. Our economic ownership interest for the Hollywood & Highland Hotel at December 31, 2001 was 84.5%. We expect that our economic ownership interest will increase to 91% as a consequence of our joint venture partner's conversion of \$5 million of equity into debt.

Project Name (Ownership)	Location	Year of Completion /Acquisition	Total Area (sq. ft.)	Owned Area (sq. ft.)	Pro Rata Book Value		Leased December 31, 2001
					December 31, 2001 (\$ mil.)	Occupancy December 31, 2001	
Desert Passage	Las Vegas, NV	Aug. 2000	475,000	475,000	260.1	74%	78%
Paseo Colorado	Pasadena, CA	Sept. 2001	565,000	412,000	82.8	84%	93%
Hollywood & Highland							
Retail	Los Angeles, CA	Nov. 2001	645,000	645,000		72%	88%
Hotel (91%)	Los Angeles, CA	Dec. 2001	600,000	546,000		n/a	n/a
			1,245,000	1,191,000	307.6	72%	88%
			2,285,000	2,078,000	650.5	76%	86%

At December 31, 2001, our share of expenditures required to complete these properties under development was \$45 million for which construction financing facilities have been arranged.

By December 31, 2001, we had opened all of our retail/entertainment projects. The retail/entertainment component of Hollywood & Highland opened on November 8, 2001, while the hotel component opened on December 26, 2001. Paseo Colorado opened on September 28, 2001, and Desert Passage opened in August 2000. At the end of 2000, we classified all of these assets as held for disposition, and carried them at the lower of their carrying values or estimated fair value less costs to sell.

Our Hollywood & Highland and Desert Passage properties depend on tourism for a significant portion of their visitors. The September 2001 terrorist attacks and related events significantly impacted the levels of tourism in Los Angeles and Las Vegas, and furthermore created significant general economic uncertainty. It is likely that near-term operating results for these properties will be lower than originally anticipated as a result of the decline in tourism following the September 2001 terrorist attacks.

In addition, the Aladdin Hotel and Casino, which adjoins Desert Passage in Las Vegas, Nevada, filed for Chapter 11 reorganization on September 28, 2001. Although the Aladdin Hotel and Casino remain in operation and we are hopeful that an experienced operator will be put in place through the reorganization process, the number of visitors at Desert Passage and, accordingly, its near-term operating results are likely to be negatively impacted.

As previously noted, an allowance for loss of \$234.5 million was recorded for the year ended December 31, 2001. Of this amount \$217 million is related to the Hollywood & Highland complex and \$17.5 million is related to Desert Passage.

Dispositions

In 2001, we sold four non-core properties generating net proceeds, after debt repayment, of \$102.9 million. During 2000, we sold 12 non-core office properties and generated net proceeds, after debt repayment, of \$205.2 million.

Our plan calls for an orderly disposition of the three retail/entertainment projects over the next several years, optimizing value over reasonable sales periods. Planned disposition timelines will allow us to achieve stabilized income in order to optimize realized values. Net proceeds will be redeployed into our core office portfolio or used to repay mortgage debt. Our ability to execute the disposition plan for these assets, as currently contemplated, is dependent upon the future economic environment, joint venture considerations and local property market conditions.

Financing Activities

Cash provided by financing activities during 2001 primarily reflects the impact of the net increase in refinancing proceeds from the May 2001 CMBS transaction. Cash provided by financing activities decreased in 2000 compared with 1999 primarily as a result of no property acquisition related financing in 2000 and increased debt repayments due to a higher level of dispositions in 2000, partially offset by an increased level of parent advances, which funded pre-construction financing equity requirements for the retail/entertainment projects under development.

On December 31, 2001 our combined consolidated debt was approximately \$3.0 billion. The weighted average interest rate on our debt was 5.8% and the weighted average maturity was approximately 5.2 years. The table that follows summarizes the mortgage and other loan debt at December 31, 2001 and December 31, 2000:

Debt Summary	December 31,	
	2001	2000
	(dollars in thousands)	
Balance:		
Fixed rate	\$ 2,128,064	\$ 1,609,480
Variable rate	889,734	717,427
Total	<u>\$ 3,017,798</u>	<u>\$ 2,326,907</u>
Collateralized	\$ 2,992,772	\$ 2,278,408
Unsecured	25,026	48,499
Total	<u>\$ 3,017,798</u>	<u>\$ 2,326,907</u>
Percent of total debt:		
Fixed rate	70.5%	69.2%
Variable rate	29.5%	30.8%
Total	<u>100.0%</u>	<u>100.0%</u>
Weighted average interest rate at period end:		
Fixed rate	6.91%	7.13%
Variable rate	3.01%	7.99%
Total	<u>5.76%</u>	<u>7.39%</u>
Leverage ratio:		
Net debt to net debt plus book equity	<u>52.8%</u>	<u>46.0%</u>

As at December 31, 2001, we had fixed the interest rates on \$150 million (as at December 31, 2000 – nil; 1999 – \$12.7 million) of the debt classified, as fixed in the above table, by way of interest rate swap contracts with a weighted average interest rate of 6.01% and maturing on March 15, 2008.

The variable rate debt shown above bears interest based primarily on various spreads over LIBOR. The leverage ratio is the ratio of mortgage and other debt less cash and cash equivalents, or “net debt,” to the sum of net

The increase in our leverage ratio from December 31, 2000 to December 31, 2001 in part reflects the fact that on May 17, 2001, we refinanced \$1.16 billion of existing long-term debt through the private placement issuance by a special-purpose vehicle created by one of our subsidiaries of \$1.44 billion of commercial mortgage pass-through certificates. The certificates are backed by mortgages that secure loans on 28 U.S. office properties that have maturities of five, seven and 10 years. At December 31, 2001, the weighted average cost of this debt was 4.9% and it replaced existing debt at 7.1%. The transaction addressed near-term maturities of existing debt and also

increased the ratio of fixed-rate debt to total debt to 70.5% at December 31, 2001 compared with 69.2% at the end of 2000.

The table below segregates long-term debt repayments between our office group and retail properties that are held for disposition.

	Mortgage Debt		Other	Total
	Office	Retail	Loans	
	(dollars in thousands)			
Principal repayments due in				
2002	\$ 88,491	\$ 106,791	\$ 2,380	\$ 197,662
2003	174,104	236,937	2,219	413,260
2004	361,199	-	1,584	362,783
2005	92,789	-	792	93,581
2006	731,273	-	448	731,721
Subsequent to 2006	1,201,188	-	17,603	1,218,791
Total	\$ 2,649,044	\$ 343,728	\$ 25,026	\$ 3,017,798
Weighted average interest rate as at December 31, 2001	6.02%	3.57%	8.10%	5.76%
Weighted average term to maturity	5.4 yrs.	1.1 yrs.	46.7 yrs.	5.2 yrs.
Percentage of fixed rate debt	79.5%	-%	85.5%	70.5%

Due to our intention to dispose of the three retail/entertainment centers, the mortgage debt relating to these properties is all on a floating rate basis.

The combined consolidated mortgage and other debt information presented above does not reflect indebtedness secured by property owned in joint venture partnerships as they are accounted for under the equity method. At December 31, 2001 our pro rata share of this debt amounted to \$351.1 million (December 31, 2000 – \$432.4 million).

Market Risk – Quantitative and Qualitative Information

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. The primary market risk facing us is long-term indebtedness, which bears interest at fixed and variable rates. The fair value of our long-term debt obligations is affected by changes in market interest rates. We manage our market risk by matching long-term leases on our properties with long-term fixed rate non-recourse debt of similar durations. At December 31, 2001, approximately 70.5% or \$2,128.1 million of our outstanding debt has fixed interest rates, which minimizes the interest rate risk until the maturity of such outstanding debt.

We utilize certain derivative financial instruments at times to limit interest rate risk. Interest rate protection agreements are used to convert variable rate debt to a fixed rate basis or to hedge anticipated financing transactions. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes. We have entered into hedging arrangements with financial institutions we believe to be creditworthy counterparties. Our primary objective when undertaking hedging transactions and derivative positions is to reduce our floating rate exposure, which, in turn, reduces the risks that variable rate debt imposes on our cash flows. Our strategy partially protects us against future increases in interest rates. At December 31, 2001, we had hedge contracts totaling \$150 million. The hedging agreements convert variable rate debt at LIBOR + 0.37% to a fixed rate of 6.01% and mature on March 15, 2008. We will consider entering into additional hedging agreements with respect to all or a portion of our variable rate debt. We may borrow additional money with variable rates in the future. Increases in interest rates could increase interest expense, which, in turn, could affect cash flows and our ability to service our debt. As a result of the hedging agreements, decreases in interest rates could increase interest

expense as compared to the underlying variable rate debt and could result in us making payments to unwind such agreements.

At December 31, 2001, our total outstanding debt was approximately \$3,017.8 million, of which approximately \$889.7 million was variable rate debt after the impact of the hedge agreements. At December 31, 2001, the average interest rate on variable rate debt was approximately 3.0%. Taking the hedging agreements into consideration, if market interest rates on our variable rate debt were to increase by ten percent (or approximately 30 basis points), the increase in interest expense on the variable rate debt would decrease future earnings and cash flows by approximately \$2.7 million annually. If market rates of interest increased by 10%, the fair value of the total debt outstanding would decrease by approximately \$55.7 million.

If market rates of interest on the variable rate debt decrease by 10% (or approximately 30 basis points), the decrease in interest expense on the variable rate debt would increase future earnings and cash flows by approximately \$2.7 million annually. If market rates of interest decrease by 10%, the fair value of the total outstanding debt would increase by approximately \$58.1 million.

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take such actions to further mitigate its exposure to the change. Due to the uncertainty of specific actions we may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in our financial structure.

Competition

The leasing of real estate is highly competitive. We compete for tenants with lessors and developers of similar properties located in our respective markets primarily on the basis of location, rent charged, services provided, and the design and condition of our buildings. We also experience competition when attempting to acquire real estate, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, trust funds, partnerships and individual investors.

Environmental Matters

We believe, based on our internal reviews and other factors, that the future costs relating to environmental remediation and compliance will not have a material adverse effect on our financial position, results of operations or liquidity. For a discussion of environmental matters, see “Item 1. Business Risk Factors – Environmental problems at our properties are possible, may be costly and may adversely affect our operating results or financial condition” in this Form 10-K.

Newly Issued Accounting Standards

In December 1999, the Securities Exchange Commission issued Staff Accounting Bulletin, or SAB, No. 101, Revenue Recognition, which outlines basic criteria that must be met to recognize revenue and provides guidance for the presentation of revenue and for disclosure related to revenue recognition policies in financial statements. The adoption of SAB 101 had no significant impact on us.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” These new standards eliminate pooling as a method of accounting for business combinations, and feature new accounting rules for goodwill and intangible assets. SFAS No. 141 is effective for business combinations initiated from July 1, 2001. SFAS No. 142 will be adopted on July 1, 2002. We are currently assessing the impact of the adoption of SFAS No. 142.

On October 3, 2001, the Financial Accounting Standards Board issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.” SFAS No. 144 applies to all

long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business." SFAS No. 144 requires long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Under SFAS No. 144, certain conditions are required to be met for a property to be classified as held for disposition. Under the transitional rules of the standard, properties held for disposition as at the date of adoption are required to satisfy these conditions within one year of adoption. Properties currently held for disposition that do not meet such conditions by December 31, 2002 will be required to be reclassified from held for disposition, to held and used at that date. Reclassification, if any, is measured at the lower of the asset's carrying amount before it was classified as held for disposition, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and used, or fair value at the date of reclassification. We adopted this standard on January 1, 2002 and we do not expect any impact with respect to the adoption of this standard.

Inflation

Substantially all of our leases provide for separate property tax and operating expense escalations over a base amount. In addition, many of our leases provide for fixed base rent increases or indexed increases. We believe that inflationary increases may be at least partially offset by these contractual rent increases.

Funds from Operations

Management believes that funds from operations, as defined by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, to be an appropriate measure of performance for an equity REIT. While funds from operations is a relevant and widely used measure of operating performance of equity REITs, it does not represent cash flows from operations or net income as defined by GAAP, and it should not be considered as an alternative to these indicators in evaluating our liquidity or operating performance.

The following table reflects the calculation of funds from operations for the years ended December 31, 2001, 2000 and 1999:

	Years Ended December 31,		
	2001	2000	1999
	(dollars in thousands)		
Income before allocation to minority interest, income from unconsolidated real estate joint ventures, gain (loss) on sale of real estate and allowance for loss on properties held for disposition, income taxes, extraordinary item and cumulative effect of a change in accounting principle	\$177,560	\$ 78,465	\$ 84,860
Add/(deduct):			
Income from unconsolidated real estate joint ventures	12,952	19,417	16,207
Depreciation and amortization (real estate related) including share of unconsolidated real estate joint ventures	174,850	161,841	142,232
Current operating taxes	(4,869)	(9,406)	(1,188)
Funds from operations (1)	360,493	250,317	242,111
Less straight-line rent adjustments	(21,639)	(27,499)	(32,967)
Add straight-line ground rent adjustments	2,499	2,508	2,560
Adjusted funds from operations	\$341,353	\$225,326	\$211,704

- (1) The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in March 1995 defines funds from operations as net income (loss), computed in accordance with GAAP, excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In November 1999, NAREIT issued a National Policy Bulletin effective January 1, 2000 clarifying the definition of funds from operations to include all operating results, both recurring and non-recurring, except those defined as extraordinary under GAAP. We believe that funds from operations is helpful to

investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. We compute funds from operations in accordance with standards established by NAREIT, which may not be comparable to funds from operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. Funds from operations does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance or to cash flows from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information about quantitative and qualitative disclosure about market risk is incorporated herein by reference from “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk – Quantitative and Qualitative Information.”

Item 8. Financial Statements and Supplementary Data

See “Index to Financial Statements” on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers

The following table sets forth certain information about the persons we expect to serve as our directors and executive officers after the corporate reorganization.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter Munk	74	Chairman of the Board of Directors
Christopher Mackenzie*	47	Chief Executive Officer, President and Director
Brian Mulroney	62	Director
Glenn Rufrano	52	Director
Richard Thomson	68	Director
Polyvios Vintiadis	66	Director
Stephen Volk	65	Director
Antonio Bismonte*	41	Executive Vice President, Leasing & Operations
Gregory Hanson*	45	Executive Vice President and Chief Financial Officer
William Tresham	46	Executive Vice President, Six Sigma Initiatives
Lee Wagman	52	Executive Vice President
Casey Wold*	44	Executive Vice President, Corporate Development & Capital Transactions
Brian Berry	35	Senior Vice President, Acquisitions, Dispositions & Development
Stephen Budorick	41	Senior Vice President, Central Region
Jeffrey Echt	36	Senior Vice President, Finance & Treasury
Michael Escalante	41	Senior Vice President, Capital Allocations & Business Development
Dennis Fabro	36	Senior Vice President, Investor Relations
Wendy Godoy	47	Senior Vice President, Retail & Entertainment Financial Services
Paul Layne	44	Senior Vice President, Western Region
Richard Matthews	48	Senior Vice President, Public Relations & Corporate Communications
Joanne Ranger	38	Senior Vice President and Chief Accounting Officer
Linda Sands-Vankerk	41	Senior Vice President, Human Resources
Douglas Winshall	40	Senior Vice President, Eastern Region

* Member of our management committee, of which Christopher Mackenzie is the Chairman.

We expect that our board of directors will include five independent directors after the corporate reorganization. Both our audit committee and our nominating committee will be comprised entirely of independent directors. Additionally, we expect that the members of our nominating committee will also serve on our compensation committee.

The term of office for each of the above named directors will expire at the time of our next annual meeting of stockholders. Holders of our shares of common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the votes will be able to elect all of the directors. The candidates for election to our board of directors will be nominated by our nominating committee.

The following is a summary of the background of each director and executive officer.

Peter Munk. Mr. Munk will serve as the Chairman of our board of directors after the corporate reorganization. Mr. Munk founded our parent company, TrizecHahn Corporation, and since 1987 has served as the Chairman of the board of directors. Prior to January 1, 2001, Mr. Munk also served as the Chief Executive Officer of TrizecHahn Corporation. Mr. Munk founded and has been the Chairman of the board of directors of Barrick

Gold Corporation, a gold mining company, since 1984. Mr. Munk will also serve as the Chief Executive Officer and Chairman of the board of directors of Trizec Canada Inc. after the corporate reorganization.

Christopher Mackenzie. Mr. Mackenzie has served as our Chief Executive Officer, our President, and a member of our board of directors since May 2001. Mr. Mackenzie will also serve as the Chairman of our management committee after the corporate reorganization. Since January 1, 2001, Mr. Mackenzie has served as Chief Executive Officer and a member of the board of directors of TrizecHahn Corporation. From July 1998 through December 2000, Mr. Mackenzie was a partner of Clayton, Dubilier & Rice, a private equity partnership in New York and London. From December 1993 to September 1997, Mr. Mackenzie was the President of GE Capital Europe, the European financial services subsidiary of the General Electric Company. During this period, Mr. Mackenzie also became a corporate officer of the General Electric Company and in September 1997 he became a Senior Vice President of GE Capital Corporation, the global financial services subsidiary of the General Electric Company. Mr. Mackenzie is a director of WPP Group plc. Mr. Mackenzie will also serve as a member of the board of directors of Trizec Canada Inc. after the corporate reorganization.

Brian Mulroney. Mr. Mulroney will serve as a member of our board of directors after the corporate reorganization. In addition, Mr. Mulroney serves as a member of the board of directors of our parent corporation, TrizecHahn Corporation, and of Barrick Gold Corporation, Cendant Corporation, Archer Daniels Midland, Quebecor Inc. and Quebecor World Inc. Mr. Mulroney served as the Prime Minister of Canada from September 1984 to June 1993. In August 1993, Mr. Mulroney joined Ogilvy, Renault, a law firm based in Montreal, Canada, as Senior Partner.

Glenn Rufrano. Mr. Rufrano will serve as a member of our board of directors after the corporate reorganization. In addition, Mr. Rufrano serves as a member of the board of directors of our parent corporation, TrizecHahn Corporation, and of New Plan Excel Realty Trust. Mr. Rufrano joined New Plan Excel Realty Trust, a real estate investment trust, in February 2000 where he serves as the Chief Executive Officer and President and as a member of the company's Investment Committee. Prior to joining New Plan Excel Realty Trust, Mr. Rufrano concurrently served as a partner, President and Chief Operating Officer at The O'Connor Group, a diversified real estate investment firm, and as Co-Chairman of the Peabody Group, an association between The O'Connor Group and J.P. Morgan & Co., Inc. investing in high-yield international real estate opportunities.

Richard Thomson. Mr. Thomson will serve as a member of our board of directors after the corporate reorganization. Mr. Thomson also serves as a member of the board of directors of Inco Limited, Nexen Inc., S.C. Johnson & Son, Inc., Prudential Financial Inc., The Thomson Corporation, The Toronto-Dominion Bank and of our parent corporation, TrizecHahn Corporation. Mr. Thomson served as Chief Executive Officer of The Toronto-Dominion Bank from 1977 to 1997 and as Chairman of the bank from 1978 to February 1998. Mr. Thomson retired from The Toronto-Dominion Bank in February 1998.

Polyvios Vintiadis. Mr. Vintiadis will serve as a member of our board of directors after the corporate reorganization. In addition, Mr. Vintiadis serves as a member of the board of directors of Spectra-Physics Inc. and of Morgens, Waterfall, Vintiadis & Co., a financial services firm based in New York. Mr. Vintiadis served as the Chairman, President and Chief Executive Officer of Towermarc Corporation, a full service real estate development company, from 1984 to 2001. In addition, Mr. Vintiadis served as a principal and/or consultant of Morgens, Waterfall, Vintiadis & Co. from 1981 until 1999. Since 1999, Mr. Vintiadis has served as a consultant to Morgens, Waterfall, Vintiadis & Co.

Stephen Volk. Mr. Volk will serve as a member of our board of directors after the corporate reorganization. Mr. Volk also currently serves as a member of the board of directors of Consolidated Edison, Inc. and of Contigroup Companies, Inc. Mr. Volk served as Senior Partner of Shearman & Sterling, a corporate law firm based in New York, from 1991 to June 2001. Mr. Volk is now Chairman of Credit Suisse First Boston Corporation, an investment bank.

Antonio Bismonte. Mr. Bismonte has served as our Executive Vice President, Leasing & Operations since February 2002. Mr. Bismonte will serve a member of our management committee after the corporate reorganization. From 1997 to 2000, Mr. Bismonte served as Senior Vice President, Leasing and from August 1996

to 1997, as a Vice President, Asset Management of our subsidiary, TrizecHahn Office Properties Inc. From 2000 to February 2002, Mr. Bismonte served as Executive Vice President, Leasing and Operations of our company.

Gregory Hanson. Mr. Hanson has served as an Executive Vice President and our Chief Financial Officer since November 2001. Mr. Hanson will serve as a member of our management committee after the corporate reorganization. Since June 2001, Mr. Hanson has served as Chief Financial Officer of TrizecHahn Corporation. From April 1992 through June 2001, Mr. Hanson was employed by General Electric Capital Corporation in the capacity of Chief Financial Officer of GE Capital Real Estate from December 1997 to June 2001 and as Chief Financial Officer of GE Capital Commercial Finance from November 1996 to December 1997.

William Tresham. Mr. Tresham has served as our Executive Vice President, Six Sigma Initiatives since February 2002. Since May 2000, Mr. Tresham has served as an Executive Vice President of our subsidiary, TrizecHahn Office Properties Inc. Mr. Tresham served as a Senior Vice President of TrizecHahn Office Properties Ltd., a subsidiary of TrizecHahn Corporation, from 1995 to May 2000.

Lee Wagman. Mr. Wagman has served as an Executive Vice President since February 2002. Mr. Wagman has served as the President of TrizecHahn Developments Inc. and its predecessors since 1995.

Casey Wold. Mr. Wold has served as our Executive Vice President, Corporate Development & Capital Transactions since February 2002. Mr. Wold will serve as a member of our management committee after the corporate reorganization. Since February 1995, Mr. Wold has served as an Executive Vice President of TrizecHahn Corporation.

Brian Berry. Mr. Berry has served as our Senior Vice President, Acquisitions, Dispositions & Development since February 2002. Since January 2000, Mr. Berry has served as a Senior Vice President, Acquisitions/Dispositions of our subsidiary, TrizecHahn Office Properties Inc. Mr. Berry served as a Vice President, Acquisitions of our subsidiary, TrizecHahn Office Properties Inc., from February 1998 to December 1999. Mr. Berry served as an Associate of The JBG Companies from February 1997 to February 1998.

Stephen Budorick. Mr. Budorick has served as our Senior Vice President, Central Region since February 2002. Since January 1999, Mr. Budorick has served as a Senior Vice President, Central Region of our subsidiary, TrizecHahn Office Properties Inc. Mr. Budorick served as a Regional Vice President, Midwest Region of our subsidiary, TrizecHahn Office Properties Inc., from June 1998 to January 1999. Mr. Budorick served as the General Manager/Vice President, Midwest-Sears Tower of our subsidiary, TrizecHahn Office Properties Inc., from December 1997 to June 1998. Mr. Budorick served as a Senior Vice President of Miglin Beitler Management Corporation from 1995 to December 1997.

Jeffrey Echt. Mr. Echt has served as our Senior Vice President, Finance & Treasury since February 2002 and as our Treasurer since July 2001. Since July 2001, Mr. Echt has also served as the Senior Vice President, Finance and Treasury of our subsidiary, TrizecHahn Office Properties Inc. Mr. Echt served as a Vice President of our company from July 2001 to February 2002. Mr. Echt served as a Senior Vice President, Finance of our subsidiary, TrizecHahn Office Properties Inc., from January 2000 to July 2001. Mr. Echt served as a Vice President, Finance of our subsidiary, TrizecHahn Office Properties Inc., from August 1997 to December 1999. Mr. Echt served as a Director, Finance of Equity Office Properties Trust from November 1993 to August 1997.

Michael Escalante. Mr. Escalante has served as our Senior Vice President, Capital Allocations & Business Development since February 2002. Since July 2001, Mr. Escalante has served as a Senior Vice President, Capital Allocations/Business Development, of our subsidiary, TrizecHahn Office Properties Inc. Mr. Escalante served as a Senior Vice President/Regional Director, Western Region of our subsidiary, TrizecHahn Office Properties Inc., from March 1997 to June 2001.

Dennis Fabro. Mr. Fabro has served as our Senior Vice President, Investor Relations since February 2002. Since May 2001, Mr. Fabro has served as a Vice President, Investor Relations of TrizecHahn Corporation. Mr. Fabro served as Director, Capital Markets of TrizecHahn Corporation from October 2000 to May 2001. Mr. Fabro served as Director, Ebusiness Development of TrizecHahn Corporation from December 1999 to September 2000.

Mr. Fabro served as a Senior Analyst, Investor Relations of TrizecHahn Corporation from October 1997 to December 1999. Mr. Fabro served as a Senior Analyst of GE Capital Real Estate from June 1995 to October 1997.

Wendy Godoy. Ms. Godoy has served as our Senior Vice President, Retail & Entertainment Financial Services since February 2002. From October 1995 to February 2002, Ms. Godoy served as a Vice President of our company. Since July 1998, Ms. Godoy served as a Senior Vice President and Chief Financial Officer of TrizecHahn Developments Inc., a subsidiary of TrizecHahn Corporation. Ms. Godoy served as a Senior Vice President, Finance of TrizecHahn Centers Inc., a subsidiary of TrizecHahn Corporation, from October 1995 to June 1998.

Paul Layne. Mr. Layne has served as our Senior Vice President, Western Region since February 2002. Since July 2001, Mr. Layne has served as Senior Vice President, Western Region of our subsidiary, TrizecHahn Office Properties Inc. Mr. Layne served as Senior Vice President, Southwest/Southeast Region of our subsidiary, TrizecHahn Office Properties Inc., from January 1999 to July 2001. Mr. Layne served as a Regional Vice President, Southwest Region of our subsidiary, TrizecHahn Office Properties Inc., from January 1997 to January 1999.

Richard Matthews. Mr. Matthews has served as our Senior Vice President, Public Relations & Corporate Communications since February 2002. Since September 2001, Mr. Matthews has served as a Senior Vice President, Public Relations and Corporate Communications, of TrizecHahn Corporation. Mr. Matthews served as a Senior Vice President of Rubenstein Associates from September 1998 to September 2001. Mr. Matthews served as a Director, Public Relations of The Prudential Insurance Company of America from June 1975 to September 1998.

Joanne Ranger. Ms. Ranger has served as our Senior Vice President and Chief Accounting Officer since February 2002. Since December 1998, Ms. Ranger has served as a Vice President and Assistant Controller of TrizecHahn Corporation. Ms. Ranger served as an Assistant Controller of TrizecHahn Corporation from June 1996 to November 1998.

Linda Sands -Vankerk. Ms. Sands-Vankerk has served as our Senior Vice President, Human Resources since February 2002. Since July 7, 2001, Ms. Sands-Vankerk has served a Senior Vice President, Human Resources of our subsidiary, TrizecHahn Office Properties Inc. Ms. Sands-Vankerk served as a Vice President, Human Resources of our subsidiary, TrizecHahn Office Properties Inc., from January 1999 to July 2001. Ms. Sands-Vankerk served as a Director, Human Resources of our subsidiary, TrizecHahn Office Properties Inc., from May 1998 to December 1998. Ms. Sands-Vankerk served as a Vice President, Human Resources of Candle Corporation of America, from August 1997 to May 1998. Ms. Sands-Vankerk served as a Senior Manager, Human Resources of Sara Lee Corporation from September 1987 to August 1997.

Douglas Winshall. Mr. Winshall has served as our Senior Vice President, Eastern Region since February 2002. Since January 2000, Mr. Winshall has served as a Senior Vice President, Eastern Region of our subsidiary, TrizecHahn Office Properties Inc. Mr. Winshall served as a Vice President, Northeast Region of our subsidiary, TrizecHahn Office Properties Inc., from February 1997 to December 1999.

Current Management

The executive officers listed above currently serve our company in the capacities indicated. Our current board of directors has the following three members: Christopher Mackenzie, Robin Campbell and Gregory Hanson.

Item 11. Executive Compensation

Director Compensation

During 2001, we did not have any non-employee directors. Following the corporate reorganization, the compensation committee of our board of directors will determine the compensation for our non-employee directors.

Executive Compensation

The following table sets forth the compensation paid or accrued by TrizecHahn Corporation and us during the fiscal year ended December 31, 2001 to, or on behalf of, our chief executive officer and our four most highly compensated executive officers as of December 31, 2001. We refer to these officers collectively as the named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	
		Salary	Bonus (1)	Other Annual Compensation (2)	Number of Shares Underlying Options/SARs (3)	All Other Compensation
Peter Munk, Chairman of the Board of Directors	2001	\$ 700,000 (4)	\$ 2,800,000(4)	—	—	—
Christopher Mackenzie, Chief Executive Officer, President and Director	2001	\$1,950,000	\$ 1,675,000	—	—	\$ 300,000 (5)
Gregory Hanson, Executive Vice President and Chief Financial Officer	2001	\$ 291,700 (6)	\$ 468,750 (7)	—	500,000 (8)	—
Lee Wagman, Executive Vice President; President, TrizecHahn Developments Inc.	2001	\$ 672,000	\$ 268,800	—	100,000 (9)	\$1,198,587 (10)
Casey Wold, Executive Vice President, Corporate Development and Capital Transactions	2001	\$ 650,000	\$ 650,000	—	—	\$ 6,400 (11)

- (1) Unless otherwise noted, amounts represent bonus payments under the TrizecHahn Corporation annual variable incentive program for 2001.
- (2) Aggregate amount of perquisites and other personal benefits for each named executive officer does not exceed the lesser of \$50,000 and 10% of total annual salary and bonus.
- (3) Amounts shown in this column refer to options.
- (4) Although Mr. Munk's Annual Compensation (salary and bonus) from TrizecHahn Corporation was \$3,500,000 in 2001, he will be paid Annual Compensation of \$1,000,000 in 2002. Commencing on the effective date of the corporate reorganization, Trizec Canada Inc. and Trizec Properties will each pay a 50% share of the remaining amount of Mr. Munk's salary payable in 2002.
- (5) Under his employment agreement with TrizecHahn Corporation, which we expect to assume, Mr. Mackenzie received a payment in January 2001 to fund relocation-related expenses.
- (6) Mr. Hanson's employment with TrizecHahn Corporation commenced on June 1, 2001 pursuant to an employment agreement, which we expect to assume.
- (7) Mr. Hanson received a signing bonus of \$250,000 upon execution of his employment agreement with TrizecHahn Corporation and a pro-rated annual bonus of \$218,750.
- (8) See note (2) to the table entitled "Option/SAR Grants in Last Fiscal Year."

- (9) See note (3) to the table entitled "Option/SAR Grants in Last Fiscal Year."
- (10) All Other Compensation for Mr. Wagman consists of (1) amounts contributed by us under our 401(k) plan (\$6,400) and under our deferred compensation plan (\$2,000), (2) the amount forgiven (\$800,000) on an interest-free loan in the amount of \$4,594,000 pursuant to his amended employment agreement with TrizecHahn Corporation, (3) imputed interest (\$127,187) on such loan, (4) funding of relocation expenses (\$35,000), and (5) annual cost of living allowance (\$228,000).
- (11) All Other Compensation for Mr. Wold consists of amounts contributed by us under our 401(k) plan.

Stock Options

The following table contains information regarding option grants by TrizecHahn Corporation to our named executive officers during the year ended December 31, 2001 that, in connection with the corporate reorganization, are expected to be cancelled in exchange for options to purchase our shares.

Option/SAR Grants in Last Fiscal Year

Name	Number of Securities Underlying Options/SARs Granted	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (5)	
		% of Total Options/SARs Granted to Employees in Fiscal Year (1)	Exercise or Base Price (\$/Share) (4)	Expiration Date	5% (\$)	10% (\$)
Peter Munk	—	—	—	—	—	—
Christopher Mackenzie	—	—	—	—	—	—
Gregory Hanson	100,000 (2)	11.0	\$15.95	5/11/2008	\$ 739,311	\$1,637,853
	200,000	22.0	16.89	5/11/2008	1,290,671	3,087,755
	200,000	22.0	17.83	5/11/2008	1,102,721	2,899,805
Lee Wagman	33,334	3.7	\$17.29	9/24/2008	\$195,184	\$492,176
	33,333	3.7	18.23	9/24/2008	163,853	460,837
	33,333 (3)	3.7	19.17	9/24/2008	132,529	429,512
Casey Wold	—	—	—	—	—	—

- (1) Percentages based on 907,500 options granted by TrizecHahn Corporation to employees that will be cancelled and exchanged for options to purchase our shares in connection with the corporate reorganization.
- (2) On May 11, 2001, pursuant to his employment agreement, Mr. Hanson was granted non-assignable options to purchase up to 600,000 TrizecHahn Corporation subordinate voting shares. As part of the corporate reorganization, 500,000 of these options will be cancelled in exchange for options to purchase our shares, as shown in the above table. The options vest in tranches of 100,000, 200,000 and 200,000 on each of May 11, 2002, 2003 and 2004 and have a seven-year term. The first tranche of options to vest has an exercise price of Cdn\$25.46 per share, the second tranche has an exercise price of Cdn\$26.96 per share and the third has an exercise price of Cdn\$28.46 per share. The exercise price will be converted to its U.S. dollar equivalent on the effective date of the corporate reorganization based on the Cdn\$/US\$ exchange rate on such date. Mr. Hanson will be required to exchange the remaining 100,000 TrizecHahn Corporation options, which have an exercise price of Cdn\$25.46, for, at his election, either warrants to purchase our shares or options to purchase subordinate voting shares of Trizec Canada Inc.
- (3) On September 24, 2001, pursuant to his employment agreement, Mr. Wagman was granted non-assignable options to purchase up to 100,000 TrizecHahn Corporation subordinate voting shares. As part of the corporate reorganization, all of these options will be cancelled in exchange for options to purchase our shares, as shown in the above table. The options vest in equal amounts on each of September 24, 2002, 2003 and 2004 and have a seven-year term. The first tranche of options to vest has an exercise price of Cdn\$27.60 per share, the second tranche has an exercise price of Cdn\$29.10 per share and the third has an exercise price of Cdn\$30.60 per share. The exercise price will be converted to its U.S. dollar equivalent on the effective date of the corporate reorganization based on the Cdn\$/US\$ exchange rate on such date.

- (4) Amounts represent exercise prices that, for purposes of the table, have been converted to U.S. dollars using an exchange rate of Cdn\$1/US\$.6265, which was the rate for December 31, 2001, as published by Dow Jones & Company.
- (5) Calculated as the product of (a) the difference between (1) the product of the closing price on the New York Stock Exchange on the date of grant and the sum of one plus the adjusted stock price appreciation rate and (2) the exercise price of the option; and (b) the number of securities underlying the grant at fiscal year end.

Option Exercises and Year-End Option Values

The following table provides information about the number of shares of TrizecHahn Corporation issued upon the exercise of options by our named executive officers during the year ended December 31, 2001, and the value realized by our named executive officers. The table also provides information about the number and value of options of TrizecHahn Corporation held by our named executive officers at December 31, 2001 that, in connection with the corporate reorganization, are expected to be cancelled and exchanged for options to purchase our shares.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End (1)		Value of Unexercised In-the-Money Options at Fiscal Year End (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Peter Munk	—	—	— (3)	—	—	—
Christopher Mackenzie	—	—	—	1,000,000 (4)	—	\$830,000
Gregory Hanson	—	—	—	500,000 (5)	—	—
Lee Wagman	—	—	875,000	275,000	\$1,136,800	—
Casey Wold	217,500	\$1,493,124 (6)	657,500	75,000	\$ 20,670	\$20,670

- (1) The numbers in the two columns represent options to purchase our shares.
- (2) The closing price of the subordinate voting shares of TrizecHahn Corporation on the New York Stock Exchange on December 31, 2001 was \$15.70, based on an exchange rate of Cdn\$1/US\$.6265, as published by Dow Jones & Company.
- (3) The options previously granted to Mr. Munk by TrizecHahn Corporation will not be exchanged for options to purchase our shares. He will receive 1,350,000 warrants to purchase our shares, in exchange for 1,350,000 TrizecHahn Corporation options that will be cancelled. He will also receive options to purchase subordinate voting shares of Trizec Canada Inc. in exchange for options to purchase 550,000 subordinate voting shares of TrizecHahn Corporation that will be cancelled.
- (4) In addition to the options shown in the table, in exchange for options to purchase 500,000 subordinate voting shares of TrizecHahn Corporation that will be cancelled, Mr. Mackenzie will receive warrants to purchase 500,000 of our shares.
- (5) See note (2) to the table entitled "Option/SAR Grants in Last Fiscal Year-End Option/SAR Values".
- (6) On September 27, 2001, Mr. Wold purchased and sold 167,500 shares and on September 28, 2001, he purchased and sold 50,000 shares. The value realized is based on sales proceeds received and a per-share exercise price of Cdn\$17.24, which was the equivalent of \$10.92 on September 27 and \$11.00 on September 28, based on the Cdn\$/US\$ exchange rates of Cdn\$1/US\$.6333 on September 27 and Cdn\$1/US\$.6382 on September 28.

2002 Trizec Properties, Inc. Stock Option Plan

As part of the corporate reorganization, we intend to establish and maintain a 2002 stock option plan that will provide for grants of options to purchase shares of our common stock to our directors, officers and employees. In addition to making new grants under the plan, we intend to grant options to purchase shares of our common stock under this plan in exchange for certain of the outstanding options to purchase subordinate voting shares of TrizecHahn Corporation that will be cancelled in connection with the corporate reorganization, as described more fully in the section entitled "The TrizecHahn Corporate Reorganization." These grants will be made to our directors, officers and employees and to individuals holding options to purchase subordinate voting shares of TrizecHahn Corporation who are our former employees as of the effective date of the corporate reorganization. We anticipate that these stock options will be of equivalent economic value to the options of TrizecHahn Corporation that they will replace.

We anticipate that a maximum of 19,000,000 shares of our common stock will be authorized for issuance under our stock option plan. The maximum number of shares for which options may be granted to any individual in any calendar year is 4,000,000. This per-individual limit will be applied consistent with the rules and regulations under Section 162(m) of the Code. The number of options awarded to employees may be adjusted in the event of a capital reorganization. Options granted under this plan are not intended to qualify as incentive stock options pursuant to Section 422 of the Code.

Options under our plan that are not granted in exchange for options to purchase subordinate voting shares of TrizecHahn Corporation that are cancelled in connection with the corporate reorganization will have the following terms and conditions, unless otherwise determined by a committee of our board of directors:

- An option may be exercised during the seven-year period following the date of grant.
- An option will vest and become exercisable in 25% increments over four years, beginning one year after the date of grant.
- The exercise price cannot be less than the fair market value of a share of our common stock on the date of grant.
- Following a termination of employment for cause (as defined in the applicable option agreement), all unexercised options will immediately expire and, following a termination for other reasons will remain exercisable for:
 - 30 days if such options are vested and, if the termination is for any reason, except cause (as defined in the applicable option agreement), death or disability; and
 - one year whether or not previously vested, if the termination is due to death or disability.

Options granted under our stock option plan to our directors, officers, employees and individuals who are our former employees as of the effective date of the corporate reorganization in replacement for options to purchase subordinate voting shares of TrizecHahn Corporation will have terms that are substantially the same as the terms of the replaced options, except that the replaced options will not expire until the later of (1) the expiration of the original term of the option and (2) 66 months following the effective date of the corporate reorganization, as long as the holder remains employed by us.

Pursuant to the terms of the stock option plan and to the extent permitted by law, our board of directors may delegate authority under the stock option plan to one or more committees or subcommittees of the board of directors or to our executive officers. We anticipate that our board of directors will delegate its authority under our stock option plan to a newly formed compensation committee of the board of directors that will consist exclusively of independent directors in compliance with the provisions of Section 162(m) of the Code and Section 16 of the Securities Exchange Act of 1934, as amended.

New Plan Benefits ⁽¹⁾

Name and Position	Plan Name	
	Dollar Value ⁽²⁾	Number of Options
Peter Munk, Chairman of the Board of Directors	-	-
Christopher Mackenzie, Chief Executive Officer, President, Director	\$15,700,000	1,000,000
Gregory Hanson, Executive Vice President and Chief Financial Officer	\$ 9,263,000	590,000
Lee Wagman, Executive Vice President	\$18,055,000	1,150,000
Casey Wold, Executive Vice President, Corporate Development and Capital Transactions	\$12,913,250	822,500
All Executive Officers as a Group	\$86,436,209	5,505,491
All Directors that are not Executive Officers	\$ 2,220,577	141,438
All Employees (except Executive Officers) as a Group	\$25,465,400	1,622,000 ⁽³⁾

- (1) This table provides information regarding options to purchase our shares that we expect to grant under our stock option plan in connection with the corporate reorganization in exchange for cancelled options to purchase subordinate voting shares of TrizecHahn Corporation previously granted under the stock option plan of TrizecHahn Corporation. The table includes options to purchase subordinate voting shares of TrizecHahn Corporation granted in January 2002 that are not reflected in the table entitled "Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values."
- (2) The Dollar Value is the market value of the subordinate voting shares of TrizecHahn Corporation on December 31, 2001. See note (2) to the table entitled "Aggregated Options/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values."
- (3) This number does not include 1,384,855 options to purchase our shares that will be granted to individuals who are our former employees as of the date of the corporate reorganization.

Trizec Properties, Inc. Employee 401(k) Plan

In August 1999, we assumed the 401(k) plan, and the obligations thereunder, originally established by our subsidiary, TrizecHahn Centers Inc. At that time, the name of the plan became the TrizecHahn USA Employee 401(k) Plan and all of our employees who satisfied the eligibility criteria set forth in the plan were eligible to participate. As part of the corporate reorganization, the name will be changed to the Trizec Properties, Inc. Employee 401(k) Plan. In January 2000, our subsidiary, TrizecHahn Developments Inc. ceased to participate in this plan and established a 401(k) plan for its employees that is substantially the same as the August 1999 plan. Assets from the TrizecHahn Centers Inc. plan were transferred to the TrizecHahn Developments Inc. plan. In this discussion, any reference to our 401(k) plan or to our plan is a reference to both plans.

The 401(k) plan is a tax-qualified defined contribution plan under Section 401(k) of the Code. In general, all of our employees are eligible to participate once they attain six months of service and age 18. The 401(k) plan includes a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by 1% to 30% up to the statutorily prescribed limit, which is \$11,000 in 2002, and will have the amount of the reduction contributed to the 401(k) plan.

We make matching contributions on behalf of participants equal to 100% of the first five percent of deferred compensation. However, the maximum employer matching contribution contributed on behalf of our highly compensated employees is \$6,400.

Trizec Deferred Compensation Plan

TrizecHahn Centers Inc. and TrizecHahn Developments Inc., two of our subsidiaries, currently maintain deferred compensation plans for their U.S. employees. We intend to continue the TrizecHahn Centers Inc. deferred compensation plan for eligible employees and, in connection with the corporate reorganization, to rename it the Trizec Deferred Compensation Plan. During 2002, we intend to terminate the TrizecHahn Developments Inc. plan. Since the provisions of the plans are substantially the same, in this discussion, any reference to the deferred compensation plan is a reference to both plans.

The TrizecHahn Deferred Compensation Plan permits a select group of management and highly compensated employees (which includes officers at the Vice President level and above) to defer up to 100% of their base salary and/or bonus on a pretax basis and to notionally invest the deferred amount in various investment options offered under the plan. Additionally, we may make discretionary contributions under the plan on behalf of participants, which are also notionally invested in accordance with participants' elections. Upon completion of a minimum deferral period of four years, participants may elect to receive a distribution of the deferred amount. Discretionary contributions may also be distributed after a four-year deferral period.

Upon distribution of a deferred amount and discretionary contribution, participants receive such amounts and any earnings on such amounts, as determined by the performance of the notional investments elected by the participants. Participants whose employment terminates are eligible to receive a distribution based on their original election, either as a lump sum or in quarterly installments, at the time of their termination. Under certain other circumstances, participants who are employed by us may receive a distribution prior to the end of the four-year deferral period.

We have established a rabbi trust to which we contribute amounts equal to participant deferrals and any discretionary contributions. We determine the manner in which such amounts are actually invested and are under no obligation to invest the amounts in accordance with participants' notional investments. Notwithstanding the trust, the deferred compensation plan is an unfunded plan, and the assets of the trust are subject to the claims of our general creditors.

If a participant dies while employed, the beneficiary receives the proceeds from a life insurance policy purchased by us. The basic and supplemental policies, together, pay seventeen times base salary and bonus to a maximum of \$1,000,000.

Escrowed Share Grants

On November 9, 2000, TrizecHahn Corporation made grants of escrowed shares to 26 U.S. employees under which an escrow agent purchased a total of 904,350 TrizecHahn Corporation subordinate voting shares in the open market and deposited them in escrowed accounts. The employee is entitled to the voting rights and dividends paid on the shares during the escrow period. One-third of the share grant vests and is released to the employee on each of the anniversary dates of the grant over a three-year period. Accordingly, the first tranche of shares vested on November 9, 2001.

An employee who voluntarily terminates his employment, unless such termination is the result of the alteration by us of the essential terms of employment without the employee's consent in a manner materially adverse to the employee, or whose employment is terminated for cause, forfeits any entitlement to the shares not yet released from escrow. Fully accelerated vesting occurs if an employee's employment is terminated by us without cause.

As a result of accelerated vesting in connection with two terminations in 2001 and the vesting on November 9, 2001 of the first tranche of shares, 530,754 TrizecHahn Corporation subordinate voting shares remain in escrow pursuant to the grants.

In connection with the corporate reorganization, these shares will be exchanged in the same manner that all other subordinate voting shares of TrizecHahn Corporation are exchanged.

2002 Trizec
Properties, Inc. Stock Option Plan.” The remaining 500,000 TrizecHahn Corporation options granted under the employment agreement that are vested will be cancelled in exchange for 500,000 warrants to purchase our shares.

Also on December 21, 2000, PM Capital Inc. granted to Mr. Mackenzie the non-assignable right to purchase from PM Capital 1,000,000 TrizecHahn Corporation subordinate voting shares at a purchase price of \$14.87 per share. The terms upon which Mr. Mackenzie is entitled to exercise that purchase right mirror in all respects his rights under the stock options granted to him by TrizecHahn Corporation as described above, including the vesting schedules. However, if Mr. Mackenzie elects to exercise his right to purchase TrizecHahn Corporation subordinate voting shares from PM Capital, PM Capital has the right to cash settle that purchase by making payment to Mr. Mackenzie of an amount equal to the difference between the then current trading price of TrizecHahn Corporation subordinate voting shares and the exercise price required to be paid by Mr. Mackenzie, multiplied by the number of shares proposed to be purchased by Mr. Mackenzie. In connection with the corporate reorganization, the options to purchase shares of TrizecHahn Corporation from PM Capital will be cancelled in exchange for an equal number of options to purchase subordinate voting shares of Trizec Canada Inc. that will be held by PM Capital.

Executive Employment Agreement for Gregory Hanson

Under an executive employment agreement dated May 22, 2001, TrizecHahn Corporation agreed to employ Mr. Hanson as Chief Financial Officer for an initial term of two years, beginning on June 1, 2001, which will be

renewed for successive one-year periods, subject to four months' notice by either party. We expect to assume Mr. Hanson's employment agreement.

Mr. Hanson's annual base salary under the agreement is \$500,000, which will be increased to \$550,000 beginning June 1, 2002. Mr. Hanson's annual bonus will be between 50% and 100% of his annual salary and is targeted at 70% of his annual salary. The agreement provides for an annual tax equalization payment, payable in the event Mr. Hanson is subject to Canadian income or employment taxes, so that Mr. Hanson will retain an amount equal to the after-tax amount he would have retained if his salary and bonus were not subject to Canadian income or employment taxes.

In the event that Mr. Hanson's employment is not continued beyond the initial term or the applicable renewed term, he will be entitled to receive, upon termination of his employment, his bonus for the five months ending May 31 in the year of termination, plus one year's compensation. In the event that, during the initial term, his employment is terminated by TrizecHahn Corporation without cause or is terminated by Mr. Hanson following a change in control of TrizecHahn Corporation, he will be entitled to receive, upon termination of his employment, the compensation otherwise payable to him during the initial term, ending on May 31, 2003; provided, however, that if such termination occurs on or after June 1, 2002, he will be entitled to receive one year's compensation. If, during a renewed term, Mr. Hanson's employment is terminated by TrizecHahn Corporation without cause or is terminated by Mr. Hanson following a change in control of TrizecHahn Corporation, Mr. Hanson will also be entitled to receive one year's compensation. Under Mr. Hanson's agreement, a change in control includes our current chief executive officer ceasing to hold such position.

Mr. Hanson was granted non-assignable options to purchase up to 600,000 TrizecHahn Corporation subordinate voting shares. The options vest in equal amounts on each of May 11, 2002, 2003 and 2004. The first tranche has an exercise price of Cdn\$25.46 per share, the second tranche has an exercise price of Cdn\$26.96 per share, and the third tranche has an exercise price of Cdn\$28.46 per share. The options have a seven-year term. In the event that Mr. Hanson's employment terminates as set out in the preceding paragraph, he will be entitled to retain and exercise those stock options, whether or not vested, until one year following the date of his termination.

In connection with the corporate reorganization, all unvested options granted to Mr. Hanson by TrizecHahn Corporation will be cancelled in exchange for an equal number of options to purchase our shares, subject to the terms set forth in the section entitled "Management 2002 Trizec Properties, Inc. Stock Option Plan." Mr. Hanson may elect to exchange 100,000 vested TrizecHahn Corporation options for either warrants to purchase our shares or options to purchase subordinate voting shares of Trizec Canada Inc.

Executive Employment Agreement for Lee Wagman

Mr. Wagman and TrizecHahn Corporation entered into an employment agreement as of August 15, 1997 for a term of five years subject to annual extensions thereafter with the concurrence of both parties. This agreement has been amended as described below. We expect to assume Mr. Wagman's employment agreement, as amended.

In consideration for his services, Mr. Wagman is entitled to (a) an annual salary of at least \$625,000, (b) annual bonuses in the discretion of the board of directors of TrizecHahn Corporation or a committee thereof, (c) an initial award of options to purchase 300,000 subordinate voting shares and additional awards of options to purchase a further 100,000 subordinate voting shares following each of the second, third, fourth and fifth anniversaries of the date of the agreement, all pursuant to TrizecHahn Corporation's stock option plan, (d) an incentive award of \$1.2 million in respect of each real estate development project with a prescribed project cost undertaken by TrizecHahn Corporation that meets certain prescribed targets for return on TrizecHahn Corporation's investment within a prescribed period (generally, a six-year period from the opening of a project), and (e) benefits consistent with those provided to other U.S.-based senior executives of TrizecHahn Corporation and its subsidiaries. Both salary and incentive awards are increased by at least the percentage increases in the U.S. Consumer Price Index. The incentive awards described above may be satisfied by TrizecHahn Corporation through the issuance of subordinate voting shares.

Upon any termination of Mr. Wagman's employment by TrizecHahn Corporation without cause, or by Mr. Wagman for good reason, as defined in his employment agreement, Mr. Wagman shall be entitled to receive his

salary until the later of the expiration of the initial five-year term of the agreement and the first anniversary of the date of termination and shall be entitled to compensatory payments in lieu of receiving option awards and incentive awards described above that have not then been made or earned.

The agreement was amended in September 2000 to provide for (a) a one-year extension of the term of the agreement to August 15, 2003, (b) an annual cost-of-living allowance of \$228,000, (c) an additional incentive award of \$500,000 payable on the sale of all or a substantial interest in the Desert Passage retail/entertainment center, and (d) a doubling of the incentive awards potentially payable in respect of two of the three remaining U.S. retail/entertainment projects if returns exceed the originally budgeted returns by specified percentages.

Agreement with Casey Wold

Pursuant to Mr. Wold's engagement letter, if his employment is terminated he will be entitled to one year's compensation.

Compensation Committee

In the fiscal year ended December 31, 2001, we did not have a compensation committee or any other committee serving a similar function. Decisions as to the compensation of our executives were made by the compensation committee of the board of directors of TrizecHahn Corporation.

In connection with the corporate reorganization, we expect to establish a compensation committee of our board of directors that will consist of independent directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders

The following table sets forth information with respect to the current beneficial ownership of our voting stock by each person, or group of affiliated persons, who beneficially owns more than 5% of our voting stock. Currently, none of our executive officers or directors (other than Peter Munk) beneficially owns any shares of our capital stock. The percent of class figure for the common stock is based on 38,220,000 shares of our common stock currently outstanding and does not include shares of our common stock that may be issued upon the conversion of our Series B convertible preferred stock or Class C convertible preferred stock, as described in footnote (3) below .

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Special Voting Stock	TrizecHahn Corporation BCE Place, Wellington Tower, Suite 3900	100 shares (1)(2)	100%
Common Stock	181 Bay Street, Toronto, ON M5J 2T3 Canada	38,180,000 shares (1)(3)	99.9%

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- (1) Peter Munk beneficially owns 2,198,152 subordinate voting shares and 7,522,283 multiple voting shares of TrizecHahn Corporation, which give him voting control over TrizecHahn Corporation. Therefore, beneficial ownership of all shares of our capital stock held by TrizecHahn Corporation is attributable to Mr. Munk pursuant to Rule 13d-3 under the Securities and Exchange Act of 1934, as amended.
 - (2) TrizecHahn Corporation holds all outstanding shares of our special voting stock through its indirect, wholly owned Hungarian subsidiary, which has an address at Dohány utca 12, H-1074 Budapest, Hungary.
 - (3) TrizecHahn Corporation is the record owner of 180,000 shares of our common stock and indirectly holds an additional 38,000,000 shares of our common stock through TrizecHahn Corporation's indirect Hungarian subsidiary . Furthermore, TrizecHahn Corporation indirectly holds through its indirect Hungarian subsidiary (a) 1,100,000 shares of our Series B convertible preferred stock, which are convertible at any time at the option of their holder, and (b) 376,500 shares of our Class C convertible preferred stock, which are convertible at any time after April 1, 2002 at the option of their holder. The number of shares of our common stock to be issued upon conversion of the Series B convertible preferred stock or Class C convertible preferred stock is determined by dividing the issue price of such stock (\$1,000.00 per share and \$1,100.00 per share, respectively) by the fair market value of the common stock at the time of conversion.

Anticipated Ownership After the Corporate Reorganization

The following table sets forth information with respect to the beneficial ownership of our voting stock expected upon completion of the corporate reorganization by each person, or group of affiliated persons, who we anticipate will beneficially own more than 5% of our voting stock based on their current ownership of TrizecHahn Corporation shares. The percent of class figure for common stock is based on each identified person's current ownership of TrizecHahn Corporation shares and the assumptions that:

- 150,000,000 shares of our common stock will be outstanding immediately following the corporate reorganization; and
- in the corporate reorganization, 90,000,000 subordinate voting shares of TrizecHahn Corporation will be exchanged on a one-for-one basis for 90,000,000 shares of our common stock.

Beneficial ownership is defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended. Except as otherwise noted, the persons or entities in this table have sole voting and investing power with respect to all of the shares of common stock beneficially owned by them, subject to community property laws, where applicable.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Special Voting Stock		100 shares, indirectly through TrizecHahn Corporation's indirect Hungarian subsidiary (1)	100.0%
Common Stock	Trizec Canada Inc. BCE Place, Wellington Tower, Suite 3900 181 Bay Street, Toronto, ON M5J 2T3	Approximately 60,000,000 shares, indirectly through TrizecHahn Corporation's indirect Hungarian subsidiary (1)(2)	40.0%
Common Stock	Southeastern Asset Management, Inc. 6410 Poplar Ave., Suite 900 Memphis, TN 38119	30,351,891 shares (3)(4)	20.2%
Common Stock	Neuberger Berman, LLC 605 Third Avenue New York, NY 10158-3698	9,058,410 shares (3)(5)	6.0%

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- (1) We anticipate that the 2,198,152 subordinate voting shares and 7,522,283 multiple voting shares of TrizecHahn Corporation that Peter Munk beneficially owned as of January 31, 2002 will be exchanged in the corporate reorganization for an equivalent number of Trizec Canada Inc. subordinate voting shares and multiple voting shares, respectively, which would give Mr. Munk voting control over Trizec Canada Inc. Because of this anticipated voting control, beneficial ownership of the 100 shares of our special voting stock and approximately 60,000,000 shares of our common stock that we expect Trizec Canada Inc. to hold, directly or indirectly, on completion of the corporate reorganization is attributable to Mr. Munk pursuant to Rule 13d-3 under the Securities and Exchange Act of 1934, as amended. In addition, we expect that on completion of the corporate reorganization Mr. Munk will beneficially own an additional 1,350,000 shares of our common stock issuable pursuant to the exercise of warrants held by him.
- (2) This amount does not include warrants to purchase our common stock that we expect Trizec Canada Inc. will hold, directly or indirectly, and will be entitled to exercise at any time after the corporate reorganization. Although the number of these warrants is not yet determinable, the beneficial ownership of the common stock underlying the warrants will be attributable to Mr. Munk for the reasons described in footnote (1) above.
- (3) Assuming that the shareholder certifies that it is a qualifying U.S. person and exchanges all of its holdings of TrizecHahn Corporation subordinate voting shares for shares of our common stock.
- (4) Based on an amended Schedule 13G filed by Southeastern Asset Management, Inc. on February 12, 2002. As of December 31, 2001, Southeastern Asset Management, Inc. reported the following regarding its ownership of TrizecHahn Corporation subordinate voting shares: (a) sole voting power with respect to 14,209,791 shares; (b) shared voting power with respect to 12,679,100 shares; (c) no voting power with respect to 3,445,000 shares; (d) sole dispositive power with respect to 17,606,891 shares; (e) shared dispositive power with respect to 12,679,100 shares; and (f) no dispositive power with respect to 47,900 shares. In Southeastern Asset Management, Inc.'s amended Schedule 13G, Longleaf Partners Fund reported that it held shared voting power and shared dispositive power with respect to 10,579,100 TrizecHahn Corporation subordinate voting shares, which are also beneficially owned by Southeastern Asset Management, Inc.
- (5) Based on a Schedule 13G filed by Neuberger Berman, LLC on February 12, 2002. As of December 31, 2001, Neuberger Berman, LLC reported the following regarding its ownership of TrizecHahn Corporation subordinate voting shares: (a) sole voting power with respect to 6,768,510 shares; and (b) shared dispositive power with respect to 9,058,410 shares.

To the extent that our directors and executive officers own subordinate voting shares of TrizecHahn Corporation at the time of the corporate reorganization, they will participate in the corporate reorganization on the same terms as other holders of TrizecHahn Corporation subordinate voting shares. Peter Munk will exchange his multiple voting shares of TrizecHahn Corporation for multiple voting shares of Trizec Canada Inc. in the corporate reorganization. The following table sets forth information with respect to the beneficial ownership of our voting stock expected upon completion of the corporate reorganization by each of our directors, each of our named executive officers and all of our directors and executive officers as a group based on their current ownership of TrizecHahn Corporation subordinate voting shares and options exercisable within 60 days. The percent of class figure for the common stock is based on each identified person's current ownership of TrizecHahn Corporation shares and the assumptions that:

- 150,000,000 shares of our common stock will be outstanding immediately following the corporate reorganization;

- in the corporate reorganization, 90,000,000 subordinate voting shares of TrizecHahn Corporation will be exchanged on a one-for-one basis for 90,000,000 shares of our common stock;
- in the corporate reorganization, all officers and directors (other than Peter Munk, Brian Mulroney and Richard Thomson) identified in the following table will exchange on a one-for-one basis all TrizecHahn Corporation subordinate voting shares held by them for shares of our common stock; and
- in the corporate reorganization, all officers and directors identified in the following table will exchange on a one-for-one basis all of their fully vested and exercisable options to acquire TrizecHahn Corporation subordinate voting shares for either fully vested and exercisable options to acquire shares of our common stock or warrants to acquire shares of our common stock.

Beneficial ownership is defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended. Except as otherwise noted, the persons or entities in this table have sole voting and investing power with respect to all of the shares of common stock beneficially owned by them, subject to community property laws, where applicable.

<u>Title of Class</u>	<u>Name of Director or Executive Officer</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Special Voting Stock	Peter Munk	100 shares (1)	100%
Common Stock	Peter Munk	Approximately 61,350,000 shares (1)(2)	41%
Common Stock	Christopher Mackenzie	507,500 shares (3)	*
Common Stock	Brian Mulroney	231,250 shares (4)	*
Common Stock	Glenn Rufrano	6,250 shares (5)	*
Common Stock	Richard Thomson	6,250 shares (6)	*
Common Stock	Lee Wagman	902,590 shares (7)	*
Common Stock	Casey Wold	846,759 shares (8)	*
Common Stock	Directors and executive officers as a group	64,779,807 shares (9)(2)	42%

* Represents less than one percent.

- (1) We anticipate that the 2,198,152 subordinate voting shares and 7,522,283 multiple voting shares of TrizecHahn Corporation that Peter Munk beneficially owned as of February 28, 2002 will be exchanged in the corporate reorganization for an equivalent number of Trizec Canada Inc. subordinate voting shares and multiple voting shares, respectively, which would give Mr. Munk voting control over Trizec Canada Inc. Because of this anticipated voting control, beneficial ownership of the 100 shares of our special voting stock and approximately 60,000,000 shares of our common stock that we expect Trizec Canada Inc. to hold, directly or indirectly, on completion of the corporate reorganization is attributable to Mr. Munk pursuant to Rule 13d-3 under the Securities and Exchange Act of 1934, as amended. In addition, we expect that on completion of the corporate reorganization Mr. Munk will beneficially own an additional 1,350,000 shares of our common stock issuable pursuant to the exercise of warrants held by him.
- (2) This amount does not include warrants to purchase our common stock that we expect Trizec Canada Inc. will hold, directly or indirectly, and will be entitled to exercise at any time after the corporate reorganization. Although the number of these warrants is not yet determinable, the beneficial ownership of the common stock underlying the warrants will be attributable to Mr. Munk for the reasons described in footnote (1) above.
- (3) Included in this number are fully vested options exercisable within 60 days of February 28, 2002 to purchase 500,000 TrizecHahn Corporation subordinate voting shares.
- (4) This number represents fully vested options exercisable within 60 days of February 28, 2002 to purchase 231,250 TrizecHahn Corporation subordinate voting shares that we anticipate will be exchanged in the corporate reorganization for an equivalent number of our warrants. This amount does not include 725 subordinate voting shares owned as of February 28, 2002 that we anticipate will be exchanged in the corporate reorganization for an equivalent number of Trizec Canada Inc. subordinate voting shares.
- (5) This number represents fully vested options exercisable within 60 days of February 28, 2002 to purchase 6,250 TrizecHahn Corporation subordinate voting shares that we anticipate will be exchanged in the corporate reorganization for an equivalent number of our warrants.

- (6) This number represents fully vested options exercisable within 60 days of February 28, 2002 to purchase 6,250 TrizecHahn Corporation subordinate voting shares that we anticipate will be exchanged in the corporate reorganization for an equivalent number of our warrants. This amount does not include 3,000 subordinate voting shares owned as of February 28, 2002 that we anticipate will be exchanged in the corporate reorganization for an equivalent number of Trizec Canada Inc. subordinate voting shares.
- (7) Included in this number are fully vested options exercisable within 60 days of February 28, 2002 to purchase 900,000 TrizecHahn Corporation subordinate voting shares.
- (8) Included in this number are fully vested options exercisable within 60 days of February 28, 2002 to purchase 657,500 shares of TrizecHahn Corporation subordinate voting shares.
- (9) As at February 28, 2002, all directors and executive officers as a group owned fully vested options exercisable within 60 days of such date to purchase 4,251,025 shares of TrizecHahn Corporation subordinate voting shares.

CONTROLLING STOCKHOLDER

Peter Munk, the Chairman of TrizecHahn Corporation, controls P.M. Capital Inc., which owns all of TrizecHahn Corporation's multiple voting shares. P.M. Capital Inc.'s ownership of TrizecHahn Corporation's multiple voting shares gives it a majority of the votes in elections of TrizecHahn Corporation's board of directors and on other matters to be voted on by TrizecHahn Corporation shareholders. Currently, we are a substantially wholly owned subsidiary of TrizecHahn Corporation. Peter Munk therefore has the ability to control our business and affairs.

After the completion of the corporate reorganization, P.M. Capital Inc., through its ownership of Trizec Canada Inc.'s multiple voting shares, will have a majority of the votes in elections of Trizec Canada Inc. directors and on other matters to be voted on by Trizec Canada Inc. shareholders. We expect that Trizec Canada Inc., indirectly through its subsidiaries, will own approximately 40% of our common stock and all of our shares of Class F convertible stock, as well as all of our shares of special voting stock after the corporate reorganization. Trizec Canada Inc.'s indirect ownership of our special voting stock, when combined with its indirect ownership of our common stock, will provide it with a majority of the votes in elections of members of our board of directors. P.M. Capital's effective control of Trizec Canada Inc. will enable P.M. Capital to elect our entire board of directors and to exercise a controlling influence over our business and affairs.

Item 13. Certain Relationships and Related Transactions

In the past, we and our subsidiaries have conducted our business activities having regard to the consequences under Canadian tax legislation to TrizecHahn Corporation and its Canadian subsidiaries. We have conducted certain business activities in a manner that would not result in TrizecHahn Corporation and its Canadian subsidiaries being subject to Canadian tax on our business activities in the United States or on distributions made by us. In connection with the corporate reorganization, we will enter into an agreement with TrizecHahn Office Properties Ltd., a wholly owned, Canadian subsidiary of TrizecHahn Corporation, pursuant to which we will agree to continue to conduct our business activities having regard to the consequences under Canadian tax legislation to TrizecHahn Office Properties Ltd., and related Canadian corporations and Trizec Canada Inc. and in a manner that does not result in adverse consequences under Canadian tax legislation to such entities. We believe that such agreement will not result in any material change in the way we conduct our business or any material constraint on our ability to carry on business in the future.

In the past, we and our subsidiaries have been insured under certain insurance policies maintained by TrizecHahn Corporation. In connection with the corporate reorganization, we will enter into an agreement with TrizecHahn Corporation, pursuant to which TrizecHahn Corporation will agree to continue to maintain these insurance policies for the benefit of our company and our subsidiaries through the end of 2002 and we will agree to pay for the insurance costs attributable to us and our subsidiaries.

In connection with the proposed corporate reorganization, some outstanding TrizecHahn Corporation employee stock options will be cancelled under the plan of arrangement and replaced with options to acquire subordinate voting shares of Trizec Canada Inc. For every outstanding option to acquire one Trizec Canada Inc. subordinate voting share, Trizec Canada Inc. will, directly or indirectly, hold one of our warrants entitling Trizec Canada Inc. to one share of our common stock at any time prior to the respective warrant's expiration date. We expect that Trizec Canada Inc. will exercise these warrants whenever and to the extent that one or more options to acquire Trizec Canada Inc. subordinate voting shares are exercised. Trizec Canada Inc.'s anticipated acquisition of one share of our common stock whenever one of its stock options is exercised is intended to maintain economic equivalence between shares of our common stock and Trizec Canada Inc. subordinate voting shares.

Also in connection with the proposed corporate reorganization, we will enter into agreements with Trizec Canada Inc. pursuant to which we will agree to cause one or more registration statements on Form S-11 to be filed with and declared effective by the Securities and Exchange Commission, and to be maintained effective, registering the following offerings of our securities:

- a primary offering of shares of our common stock to be issued upon the exercise of our warrants held by Trizec Canada Inc.;
- a secondary offering of shares of our common stock that may be sold or exchanged by Trizec Canada Inc. in connection with redemptions of its shares;
- a secondary offering of shares of our common stock that may be sold by Trizec Canada Inc. in connection with the exercise of dissent rights;
- a secondary offering of shares of our common stock that may be sold by TrizecHahn Corporation's Hungarian subsidiary, including in connection with any conversions of our Class F convertible stock; and
- in connection with a pledge of our common stock pursuant to certain Trizec Canada Inc. credit facilities, a secondary offering of shares of our common stock that may be sold by the pledgee in connection with an exercise on the pledge in the event of default under the credit facilities.

The following persons were indebted to us or our subsidiaries during 2001 in an amount in excess of \$60,000:

Lee Wagman, Executive Vice President, received an interest-free, non-recourse loan from TrizecHahn Developments Inc. in mid 2000 in the amount of \$4,594,000 for the purpose of purchasing a home in connection with his transfer to Los Angeles in 2000. The largest aggregate amount of indebtedness at any time during 2001 was \$4,594,000. In accordance with its terms, the loan was repaid on September 1, 2001 upon the sale of Mr. Wagman's previous home, with \$800,000 of the loan having been forgiven.

William Tresham, Executive Vice President, received a loan from TrizecHahn Office Properties Inc. in August 2000 in the amount of \$200,000 for the purpose of purchasing a home upon relocating from Toronto to Chicago in 2000. The largest aggregate amount of indebtedness at any time during 2001 was \$200,000. In accordance with its terms, the loan was repaid in full on August 28, 2001. During the term of the loan, Mr. Tresham paid interest at an annual rate of 7%.

In 2001, Stephen Volk, who will serve as a member of our board of directors after the corporate reorganization, served as Senior Partner of Shearman & Sterling, a corporate law firm based in New York that provides legal services to our company and certain of our affiliates.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements and Financial Statement Schedules

See "Index to Financial Statements" on page F-1 of this Form 10-K.

(b) Reports on Form 8-K

We filed a report on Form 8-K on March 7, 2001, which furnished information under Item 9 regarding certain estimated year-end 2002 and 2003 operating results.

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Fourth Amended and Restated Certificate of Incorporation of Trizec Properties, Inc., filed on February 11, 2002 (incorporated herein by reference to exhibit 3.1 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
3.2	Form of Amended and Restated Bylaws of Trizec Properties, Inc. (incorporated herein by reference to exhibit 3.2 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
3.3	Form of Audit Committee Charter of Trizec Properties, Inc. (incorporated herein by reference to exhibit 3.3 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
4.1	Form of Common Stock Certificates (incorporated herein by reference to exhibit 4.1 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
4.2	Form of Exchange Certificates (incorporated herein by reference to exhibit 4.2 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
4.3	Form of Custody Agreement relating to the Exchange Certificates (incorporated herein by reference to exhibit 4.3 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
10.1	Employment Agreement for Christopher Mackenzie (incorporated herein by reference to exhibit 10.1 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
10.2	Employment Agreement for Gregory Hanson (incorporated herein by reference to exhibit 10.2 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
10.3	Employment Agreement for Lee Wagman (incorporated herein by reference to exhibit 10.3 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*

- 10.4 Letter Agreement for Casey Wold (incorporated herein by reference to exhibit 10.4 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
- 10.5 Trizec Deferred Compensation Plan and Trust Agreement (incorporated herein by reference to exhibit 10.5 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
- 10.6 TrizecHahn Developments Inc. Deferred Compensation Plan and Trust Agreement (incorporated herein by reference to exhibit 10.6 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
- 10.7 Form of 2002 Trizec Properties, Inc. Stock Option Plan (incorporated herein by reference to exhibit 10.7 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).*
- 10.8 General Agreement dated as of November 7, 1994 by and among Metropolitan Life Insurance Company, AEW Partners, L.P., Partners Tower, L.P., Tower Leasing, Inc., Sears, Roebuck and Co. and ST Holdings, Inc. (incorporated herein by reference to exhibit 10.8 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).
- 21.1 Subsidiaries of Trizec Properties, Inc. (incorporated herein by reference to exhibit 21.1 to Trizec Properties, Inc.'s registration statement on Form 10, File No. 001-16765).

* Management contract or compensatory plan required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRIZEC PROPERTIES, INC.

Dated: March 8, 2002

By: /s/Gregory Hanson
Name: Gregory Hanson
Title: Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 8, 2002

By: /s/Christopher Mackenzie
Name: Christopher Mackenzie
Title: President, Chief Executive Officer
and Director

By: /s/Gregory Hanson
Name: Gregory Hanson
Title: Executive Vice President and Chief
Financial Officer and Director

By: /s/Joanne E. Ranger
Name: Joanne E. Ranger
Title: Senior Vice President and Chief
Accounting Officer

By: /s/Robin A. Campbell
Name: Robin A. Campbell
Title: Director

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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Independent Accountants

To the Board of Directors and Shareholders of
TrizecHahn Corporation

In our opinion, the combined consolidated financial statements listed in the accompanying index on page F-1 present fairly, in all material respects, the financial position of Trizec Properties, Inc. Combined (formerly known as TrizecHahn (USA) Corporation Combined), as defined in Note 1, at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combined consolidated financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined consolidated financial statements, effective January 1, 2001, the Corporation changed its method of accounting for derivatives.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 11, 2002

Combined Consolidated Balance Sheets

(\$ thousands)	December 31	
	2001	2000
Assets		
Real estate	\$ 5,399,031	\$ 4,883,826
Less: accumulated depreciation	(438,584)	(305,038)
Real estate, net	4,960,447	4,578,788
Cash and cash equivalents	297,434	70,195
Escrows and restricted cash	28,180	127,595
Investment in unconsolidated real estate joint ventures	289,242	384,038
Investment in Sears Tower	70,000	70,000
Office tenant receivables, net	33,308	44,255
Other receivables, net	34,201	30,246
Deferred rent receivables, net	99,515	81,125
Deferred charges, net	138,054	97,622
Prepaid expenses and other assets	55,421	80,132
Advances to parent and affiliated companies	90,633	-
Total Assets	\$ 6,096,435	\$ 5,563,996
Liabilities and Owners' Equity		
Liabilities		
Mortgage debt and other loans	\$ 3,017,798	\$ 2,326,907
Trade, construction and tenant improvements payables	91,646	105,720
Accrued interest expense	12,007	12,764
Accrued operating expenses and property taxes	108,276	95,063
Other accrued liabilities	76,266	69,346
Taxes payable	53,862	59,153
Deferred income taxes	60,000	50,767
Advances from parent and affiliated companies	236,619	192,640
Total Liabilities	3,656,474	2,912,360
Minority Interest	4,386	4,819
Redeemable Stock	200	-
Commitments and Contingencies		
Owners' Equity		
Owners' capital	2,437,380	2,290,219
Retained earnings	6,514	372,662
Unearned compensation	(6,701)	(11,713)
Accumulated other comprehensive income (loss)	(1,818)	(4,351)
Total Owners' Equity	2,435,375	2,646,817
Total Liabilities and Owners' Equity	\$ 6,096,435	\$ 5,563,996

See accompanying notes to the combined consolidated financial statements

**Combined Consolidated Statements of Operations
and Comprehensive Income (Loss)**

(\$ thousands except share and per share amounts)	For the years ended December 31		
	2001	2000	1999
Revenues			
Rentals	\$ 671,236	\$ 666,888	\$ 617,836
Recoveries from tenants	102,513	94,712	76,360
Parking and other	127,035	95,380	94,174
Fee income	11,490	13,570	13,332
Interest	15,677	8,480	7,118
Total revenues	927,951	879,030	808,820
Expenses			
Operating	286,269	266,744	249,092
Property taxes	92,682	88,914	84,849
General and administrative	25,854	18,429	16,725
Interest	152,759	265,680	234,992
Depreciation and amortization	161,078	154,118	133,352
Reorganization costs	15,922	6,680	4,950
Loss from securities investments	15,371	-	-
Derivative losses	456	-	-
Total expenses	750,391	800,565	723,960
Income before allocation to Minority Interest, Income from Unconsolidated Real Estate Joint Ventures, Gain (loss) on Sale of Real Estate and Allowance for Loss on Properties Held for Disposition, Income Taxes, Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	177,560	78,465	84,860
Minority interest	433	580	1,459
Income from unconsolidated real estate joint ventures	12,952	19,417	16,207
Gain (loss) on sale of real estate and allowance for loss on properties held for disposition	(307,044)	33,185	(41,373)
Income (Loss) before Income Taxes, Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	(116,099)	131,647	61,153
Benefit from (provision for) income and other corporate taxes	(13,795)	252,840	(22,815)
Income (Loss) before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	(129,894)	384,487	38,338
Loss on early debt retirement, net of taxes	(17,966)	(1,491)	-
Income (Loss) before Cumulative Effect of a Change in Accounting Principle	(147,860)	382,996	38,338
Cumulative effect of a change in accounting principle	(4,631)	-	-
Net Income (Loss)	\$(152,491)	\$ 382,996	\$ 38,338

See accompanying notes to the combined consolidated financial statements

**Combined Consolidated Statements of Operations
and Comprehensive Income (Loss) (Continued)**

(\$ thousands except share and per share amounts)	For the years ended December 31		
	2001	2000	1999
Pro Forma per Share Amounts (unaudited)			
Income (loss) per share before extraordinary item and cumulative effect of a change in accounting principle			
Basic	\$ (0.87)	\$ 2.57	\$ 0.26
Diluted	\$ (0.87)	\$ 2.55	\$ 0.25
Income (loss) per share before cumulative effect of a change in accounting principle			
Basic	\$ (0.99)	\$ 2.56	\$ 0.26
Diluted	\$ (0.99)	\$ 2.54	\$ 0.25
Net income (loss) per share			
Basic	\$ (1.02)	\$ 2.56	\$ 0.26
Diluted	\$ (1.02)	\$ 2.54	\$ 0.25
Weighted average shares outstanding			
Basic	149,349,698	149,349,698	149,349,698
Diluted	149,349,698	150,855,799	150,855,799
Statements of Comprehensive Income (Loss)			
Net income (loss)	\$ (152,491)	\$ 382,996	\$ 38,338
Other comprehensive income (loss), before taxes:			
Unrealized gains (losses) on investments in securities:			
Unrealized holding gains (losses) arising during the period	-	(4,351)	-
Reclassification adjustment for the cumulative effect of a change in accounting principle included in income	4,351	-	-
Unrealized derivative losses:			
Effective portion of interest rate contracts	(1,818)	-	-
Taxes on other comprehensive income (loss)	-	1,716	-
Impact of REIT election	-	(1,716)	-
Total other comprehensive income (loss)	2,533	(4,351)	-
Comprehensive income (loss)	\$ (149,958)	\$378,645	\$38,338

See accompanying notes to the combined consolidated financial statements

**Combined Consolidated Statements
of Changes in Owners' Equity**

(\$ thousands except share amounts)	For the years ended December 31		
	2001	2000	1999
Trizec Properties, Inc. (Trizec Properties)			
Series A Convertible Preferred Stock , no shares authorized at December 31, 2001 (2000 - 230,000; 1999 - 230,000), \$1.00 par value, no shares issued and outstanding at December 31, 2001 (2000 - 212,000; 1999 - 212,000) – on December 3, 2001 all authorized and issued shares were cancelled			
Balance, beginning of year	\$ 212,000	\$ 212,000	\$ 212,000
Conversion to Common Stock in 2001	(212,000)	-	-
Balance, end of year	\$ -	\$ 212,000	\$ 212,000
Series B Convertible Preferred Stock , 1,100,000 (2000 – 1,100,000; 1999 – 350,000) shares authorized, \$1.00 par value, 1,100,000 shares issued and outstanding at December 31, 2001 (2000 – 1,100,000; 1999 – 350,000)			
Balance, beginning of year	\$ 1,100,000	\$ 350,000	\$ -
Issuance of 750,000 shares in 2000	-	750,000	-
Issuance of 350,000 shares in 1999	-	-	350,000
Balance, end of year	\$ 1,100,000	\$1,100,000	\$ 350,000
Class C Convertible Preferred Stock , 750,000 shares authorized, \$1.00 par value, 376,504 shares issued and outstanding at December 31, 2001 (2000 – nil; 1999 – nil)			
Balance, beginning of year	\$ -	\$ -	\$ -
Issuance of 376,504 shares in 2001 for cash	414,154	-	-
Balance, ending of year	\$ 414,154	\$ -	\$ -
Common Stock , 200,000,000 shares authorized (2000 – 10,000; 1999 – 10,000), \$0.01 par value, 38,220,000 shares issued and outstanding at December 31, 2001 (2000 – 1,068; 1999 – 1,068)			
Balance, beginning of year	\$ -	\$ -	\$ -
Issuance of 357.6 shares in 2001 for conversion of Series A Convertible Preferred shares	-	-	-
Exchange of 1,425.6 shares in 2001 for 38,000,000 shares under recapitalization plan	380	-	-
Issuance of 180,000 shares in 2001 in consideration for net assets received	2	-	-
Issuance of 40,000 shares in 2001 as a donation	-	-	-
Balance, end of year	\$ 382	\$ -	\$ -

See accompanying notes to the combined consolidated financial statements

**Combined Consolidated Statements
of Changes in Owners Equity (Continued)**

(\$ thousands except share amounts)	For the years ended December 31		
	2001	2000	1999
TrizecHahn Developments Inc. ("THDI")			
Common Stock , 1,000 shares authorized, \$0.01 par value, 260 shares issued and outstanding			
Balance, beginning of year	\$ -	\$ -	\$ -
Issuance of 100 shares in 1999 for cash	-	-	-
Issuance of 160 shares in 1999 as consideration for net assets received	-	-	-
Balance, end of year	\$ -	\$ -	\$ -
Trizec Properties/THDI			
Additional Paid-in Capital			
Balance, beginning of year	\$ 978,219	\$ 978,219	\$ 1,244,090
THDI issuance of 160 shares of Common Stock in 1999 as consideration for net assets received	-	-	175,834
Conversion of Trizec Properties Series A Preferred Stock to Trizec Properties Common Stock in 2001	212,000	-	-
Exchange of Trizec Properties Common Stock for Trizec Properties Common Stock, Trizec Properties Special Voting Stock and Trizec Properties Class F Convertible Preferred Stock in 2001	(580)	-	-
Trizec Properties issuance of 180,000 shares of Common Stock in 2001 as consideration for net assets received	16,548	-	-
Trizec Properties issuance of 40,000 shares of Common Stock in 2001 under recapitalization plan	2,000	-	-
Common Stock dividends in excess of available retained earnings	(285,343)	-	(441,705)
Balance, end of year	\$ 922,844	\$ 978,219	\$ 978,219
Total Owners' Capital, end of year	\$ 2,437,380	\$ 2,290,219	\$ 1,540,219
Retained Earnings (Deficit)			
Balance, beginning of year	\$ 372,662	\$ (10,334)	\$ 410,957
Net income (loss)	(152,491)	382,996	38,338
Common stock dividends	(213,657)	-	(459,629)
Balance, end of year	\$ 6,514	\$ 372,662	\$ (10,334)
Unearned Compensation			
Balance, beginning of year	\$ (11,713)	\$ -	\$ -
Shares granted	-	(12,402)	-
Amortization	5,012	689	-
Balance, end of year	\$ (6,701)	\$ (11,713)	\$ -
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of year	\$ (4,351)	\$ -	\$ -
Other comprehensive income (loss)	2,533	(4,351)	-
Balance, end of year	\$ (1,818)	\$ (4,351)	\$ -

See accompanying notes to the combined consolidated financial statements

Combined Consolidated Statements of Cash Flows

(\$ thousands)	For the years ended December 31		
	2001	2000	1999
Cash Flows from Operating Activities			
Net income (loss)	\$ (152,491)	\$ 382,996	\$ 38,338
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from unconsolidated real estate joint ventures	(12,952)	(19,417)	(16,207)
Depreciation and amortization expense	161,078	154,118	133,352
Amortization of financing costs	9,586	16,102	13,098
(Gain) loss on sale of real estate and allowance for loss on properties held for disposition	307,044	(33,185)	41,373
Minority interest	(433)	(580)	(1,459)
Derivative losses	456	-	-
Deferred compensation	5,012	689	-
Loss from securities investments	15,371	-	-
Deferred income tax (benefit) expense	8,926	(315,540)	21,627
Loss on early debt retirement	4,211	-	-
Reorganization costs	2,000	-	-
Cumulative effect of change in accounting principle	4,631	-	-
Purchase of shares for escrowed share grant plan	-	(12,402)	-
Changes in assets and liabilities:			
Escrows and restricted cash	99,415	(88,945)	285,867
Office tenant receivables, net	10,947	(14,675)	6,558
Other receivables, net	(3,955)	(3,828)	(9,511)
Deferred rent receivables, net	(18,390)	(26,369)	(27,874)
Prepaid expenses and other assets	10,895	(12,298)	(21,747)
Accounts payable, accrued liabilities and other liabilities	11,597	86,455	27,290
Net cash provided by (used in) operating activities	<u>462,948</u>	<u>113,121</u>	<u>490,705</u>
Cash Flows from Investing Activities			
Properties:			
Acquisitions	(202,740)	(86,347)	(649,625)
Development expenditures	(362,425)	(241,268)	(136,442)
Tenant improvements and capital expenditures	(88,740)	(97,769)	(68,096)
Tenant leasing costs	(39,914)	(31,680)	(31,647)
Dispositions	111,553	426,950	17,070
Unconsolidated real estate joint ventures:			
Investments	(30,123)	(53,263)	(39,712)
Distributions	15,401	30,653	35,276
Net cash provided by (used in) investing activities	<u>(596,988)</u>	<u>(52,724)</u>	<u>(873,176)</u>
Cash Flows from Financing Activities			
Long-term debt			
Acquisition financing	48,500	-	383,100
Development financing	227,231	36,158	1,740
Property financings	1,441,390	60,909	655,907
Principal repayments	(1,219,713)	(88,208)	(718,722)
Repaid on dispositions	(1,321)	(221,727)	-
Refinancing expenditures	(19,858)	(1,622)	(16,383)
Net advance (to) from parent company and affiliates	384,050	143,936	78,608
Dividends	(499,000)	-	-
Net cash provided by (used in) financing activities	<u>361,279</u>	<u>(70,554)</u>	<u>384,250</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>227,239</u>	<u>(10,157)</u>	<u>1,779</u>
Cash and Cash Equivalents, beginning of year	<u>70,195</u>	<u>80,352</u>	<u>78,573</u>
Cash and Cash Equivalents, end of year	<u>\$ 297,434</u>	<u>\$ 70,195</u>	<u>\$ 80,352</u>

See accompanying notes to the combined consolidated financial statements

Combined Consolidated Statements of Cash Flows
(Continued)

(\$ thousands)	For the years ended December 31		
	2001	2000	1999
Supplemental cash flow disclosures:			
Cash paid during the year for:			
Interest	\$ 177,124	\$ 266,598	\$ 242,713
Interest capitalized to properties under development	\$ 33,194	\$ 22,044	\$ 15,661
Other corporate taxes	\$ 10,160	\$ 4,871	\$ 5,729
Non-cash investing and financing activities:			
Mortgage debt assumed upon obtaining control of joint venture investment	\$ 194,674	\$ -	\$ 74,402
Mortgage debt assumed by purchasers on property dispositions	\$ -	\$ 47,415	\$ 19,583
Non-cash issuance of shares of preferred stock	\$ -	\$ 750,000	\$ 350,000
Non-cash issuance of shares of common stock	\$ 16,550	\$ -	\$ -
Dividends-in-kind	\$ -	\$ -	\$ 725,500
Other non-cash financings	\$ 3,000	\$ -	\$ -
Transfer of joint venture interest to real estate upon obtaining control	\$ 70,680	\$ -	\$ 84,167
Contribution to non-consolidated joint ventures	\$ -	\$ -	\$ 45,699

See accompanying notes to the combined consolidated financial statements

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Organization

The organization presented in these combined financial statements is not a legal entity. It is a combination of all the United States (“U.S.”) assets that TrizecHahn Corporation (“TrizecHahn”), a Canadian public real estate company, currently owns directly, or indirectly. TrizecHahn is currently proposing a corporate reorganization to be completed pursuant to a plan of arrangement (the “Reorganization”).

The accompanying financial statements present, on a combined consolidated basis, all of the U.S. assets of TrizecHahn, substantially all of which are owned and operated by Trizec Properties, Inc. (“Trizec Properties”, formerly known as TrizecHahn (USA) Corporation) and TrizecHahn Developments Inc. (“THDI”), TrizecHahn’s two primary U.S. operating and development companies. All of the combined entities, through a series of vertically integrated corporations, are wholly-owned subsidiaries of the common parent TrizecHahn. Collectively the combination of all these assets is referred to as the “Corporation”, or “Trizec Properties, Inc. Combined”.

On February 11, 2002, Trizec Properties filed its Fourth Amended and Restated Certificate of Incorporation in which it changed its name to Trizec Properties, Inc. In addition, the authorized number of shares of Common Stock of the Corporation was increased to 500,000,000.

The Corporation operated as separate stand alone entities for the periods presented, and as such no additional expenses incurred by TrizecHahn or its related entities were, in management’s view, necessary to be allocated to the Corporation for the periods presented. However, the historical financial results are not necessarily indicative of future operating results and no adjustments have been made to reflect possible incremental changes to the cost structure as a result of the Reorganization. The incremental charges will include, but are not limited to, additional senior management compensation expense to supplement the existing senior management team and internal and external public company corporate compliance costs.

Trizec Properties is a corporation organized under the laws of the State of Delaware and is ultimately a wholly-owned subsidiary of TrizecHahn. Trizec Properties is a direct wholly-owned subsidiary of Emerald Blue Kft (“direct parent”), which in turn is a wholly-owned subsidiary of TrizecHahn Office Properties Ltd. (“THOPL”), which in turn is a wholly-owned subsidiary of TrizecHahn Holdings Limited (“THHL”), which in turn is a wholly-owned subsidiary of TrizecHahn.

THDI is a corporation organized under the laws of the State of Delaware. Prior to September 30, 1999, THDI was a wholly-owned subsidiary of Trizec Properties. On that date, Trizec Properties transferred its investment in THDI to THOPL by way of a dividend-in-kind. THDI is currently a wholly-owned subsidiary of THOPL.

The Corporation operates solely in the U.S. where it owns, manages and develops office buildings and mixed-use properties. At December 31, 2001, it has ownership interests in and manages a high-quality portfolio of 76 U.S. office properties concentrated in the central business districts of seven major U.S. cities. In addition, the Corporation through THDI has completed the development and is stabilizing the three retail/entertainment projects, which are being held for disposition. At the end of 2000, Trizec Properties decided that it would elect to be taxed as a real estate investment trust (“REIT”) pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, (the “Code”), commencing in 2001. The Corporation intends to operate, function and be taxed as a REIT upon completion of the Reorganization.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The combined consolidated financial statements include the combined accounts of Trizec Properties and THDI and of all subsidiaries in which they have a controlling interest. Trizec Properties and THDI are indirect wholly-owned subsidiaries under the common control of TrizecHahn. The accompanying financial statements have been presented using TrizecHahn's historical cost basis. All significant intercompany balances and transactions have been eliminated.

b. Real Estate

Rental properties are recorded at cost, less accumulated depreciation, reduced for impairment losses where appropriate. Depreciation of rental properties is determined using the straight-line method over a 40 year estimated useful life period, subject to the terms of any respective ground leases.

Properties under development consist of rental properties under construction and are recorded at cost, reduced for impairment losses where appropriate. Properties are classified as properties under development until the property is substantially completed and available for occupancy, at which time such properties are classified as rental properties. The cost of properties under development includes qualifying costs incurred in connection with their acquisition, development and construction. Such costs consist of all direct costs including costs to rent real estate projects, interest on general and specific debt and other direct expenses.

If events or circumstances indicate that the carrying value of a completed rental property, a rental property under development, or a property held for development may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized.

Properties held for disposition include certain properties that are determined to no longer be core assets under the strategic plan of the Corporation which was adopted in late 2000, and as such the Corporation has decided to dispose of these properties in an orderly manner. Properties held for disposition are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. Estimated fair value is determined based on management's estimate of amounts that would be realized if the property were offered for sale in the ordinary course of business assuming a reasonable sales period and under normal market conditions. Carrying values are reassessed at each balance sheet date. Depreciation ceases once a property is classified as held for disposition.

Tenant improvements are deferred and amortized on a straight-line basis over the term of the respective lease.

Maintenance and repair costs are expensed against operations as incurred. Planned major maintenance activities, (for example: roof replacement and the replacement of heating, ventilation, air conditioning and other building systems) significant building improvements, replacements and major renovations, all of which improve or extend the useful life of the properties are capitalized to rental properties and amortized over their estimated useful lives.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b. Real Estate (cont'd)

Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods of up to 10 years.

c. Revenue Recognition

The Corporation has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenues include minimum rents and recoveries of operating expenses and property taxes. Recoveries of operating expenses and property taxes are recognized in the period the expenses are incurred. Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease.

The Corporation reports minimum rental revenue on a straight-line basis, whereby the known amount of cash to be received under a lease is recognized into income, over the term of the respective lease. The amount by which straight-line rental revenue exceeds minimum rents collected in accordance with the lease agreements is included in deferred rent receivables. When a property is acquired, the term of existing leases is considered to commence as of the acquisition date for purposes of this calculation. The impact of the straight-line adjustment increased revenue for the year ended December 31, 2001 by \$18,399 (year ended December 31, 2000 – \$24,458; 1999 – \$30,787).

The Corporation provides an allowance for doubtful accounts representing that portion of tenant and other receivables and deferred rent receivables which are estimated to be uncollectible. Such allowances are reviewed periodically based upon the recovery experience of the Corporation. Office tenant receivables in the accompanying combined consolidated balance sheets are shown net of an allowance for doubtful accounts of \$8,320 as of December 31, 2001 (December 31, 2000 – \$6,075). Other receivables, including retail tenant receivables, are shown net of an allowance for doubtful accounts of \$9,902 as at December 31, 2001 (December 31, 2000 – \$2,483). Deferred rent receivables are shown net of an allowance for doubtful accounts of \$6,209 as at December 31, 2001 (December 31, 2000 – \$2,968).

Income from the sale of properties is recorded when the collection of the proceeds of sale is reasonably assured and all other significant conditions and obligations are met.

Deferred revenue in respect of building telecommunication and service provider license agreements is recognized to income over the effective term of the license agreements. If a license agreement is terminated early, any remaining unamortized balance is recognized in income at that time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d. Investments

The Corporation accounts for its investments in unconsolidated real estate joint ventures, which it does not control and investments over which it has significant influence, using the equity method of accounting. Under the equity method of accounting, the net equity investment of the Corporation is reflected in the combined consolidated balance sheets, and the Corporation's share of net income or loss is included in the combined consolidated statements of operations. Any difference between the carrying amounts of these investments and the Corporation's share of the underlying equity in net assets is amortized as an adjustment to income over the remaining useful life of the properties to which the differences relate.

Investments in which the Corporation does not exercise significant influence are accounted for by the cost method. Income is recognized only to the extent of dividends or cash received.

The carrying value of investments which the Corporation determines to have an impairment in value considered to be other than temporary are written down to their estimated realizable value.

Marketable equity securities are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses on marketable equity securities that are designated as available-for-sale are included in combined Owners' equity as accumulated other comprehensive income (loss). Investments in securities of non-publicly traded companies are recorded at cost as they are not considered marketable under SFAS No. 115. These equity securities, which relate to building telecommunication and service provider license agreements, are included in prepaid expenses and other assets.

Mortgages receivable collateralized by real estate are carried at cost. The Corporation reviews, on a regular basis but not less than annually, or when events or circumstances occur, for impairment to its mortgages receivable. Impairment is recognized when the carrying values of the mortgages receivable will not be recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and the fair values of the collateral assets are insufficient to cover the obligations and encumbrances, including the carrying values of the mortgages receivable, in a sale between unrelated parties in the normal course of business. When a mortgage is considered impaired, an impairment charge is measured based on the present value of the expected future cash flows discounted at the effective rate of the mortgage or if the cash flows cannot be predicted with reasonable reliability, then the impaired mortgage is valued at the fair value of the underlying collateral. Interest income is generally recognized based on the terms and conditions of the mortgages receivable. Interest income ceases to be recognized when the underlying assets do not meet the contractual terms of the mortgages receivable, and are delinquent for a 90 day period. At such time interest income is generally recognized on a cash basis as payments are received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

e. Income Taxes

In December 2000, Trizec Properties determined that it would elect to be taxed as a real estate investment trust ("REIT") pursuant to Sections 856 through 860 of the Code. The REIT election will be effective as of January 1, 2001. In general, a corporation that distributes at least 90% of its REIT taxable income to its shareholders in any taxable year, and complies with certain other requirements (relating primarily to its organization, the nature of its assets and the sources of its revenues) is not subject to United States federal income taxation to the extent of the income which it distributes. Trizec Properties believes that it substantially met the qualifications for REIT status as of December 31, 2001 and December 31, 2000 and intends to satisfy all such qualifications in the future. Accordingly no provision has been made in the combined consolidated financial statements for federal income taxes in 2001 in respect of Trizec Properties.

Deferred income taxes, where applicable, are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

f. Fair Value of Financial Instruments

The estimated fair value of mortgage debt and other loans is based on the values derived using market interest rates of similar instruments. In determining estimates of the fair value of financial instruments, the Corporation must make assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible.

The estimated fair value of the Investment in Sears Tower is based on estimated future cash flow, expected risk adjusted rates of return and other factors all of which are subject to uncertainty. Accordingly, other fair values are possible.

The carrying amounts of cash and cash equivalents, escrows and restricted cash, accounts receivable, other assets, and accounts payable and accrued liabilities approximate their fair value due to the short maturities of these financial instruments.

g. Cash and Cash Equivalents

Cash and cash equivalents consist of currency on hand, demand deposits with financial institutions, and short-term highly-liquid investments with an original maturity of 90 days or less.

h. Escrows and Restricted Cash

Escrows consist primarily of amounts held by lenders to provide for future property tax expenditures and tenant improvements, deposits on acquisitions and net proceeds, intended to be reinvested, from sale of real estate assets intended to qualify for tax deferred gain recognition under Section 1031 of the Code. Restricted cash represents amounts committed for various utility deposits and security deposits. Certain of these amounts may be reduced upon the fulfillment of specific obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i. Deferred Charges

Deferred charges include leasing and financing costs which are recorded at cost. Deferred leasing costs are amortized on a straight-line basis, over the terms of the respective leases. Deferred financing costs are amortized over the terms of the respective financings on a basis which approximates the effective yield method, and are included with interest expense. Unamortized financing and leasing costs are charged to expense upon the early repayment of financings or upon the early termination of a lease.

j. Escrowed Share Grants

The Corporation has a compensation arrangement comprised of escrowed share grants of TrizecHahn Corporation subordinate voting shares, which is described in Note 14. Compensation expense, based on the quoted market price of the underlying TrizecHahn shares at the date of grant, is recognized in respect of these escrowed share grants over the three year vesting period of the share grants on a straight-line basis. The date of grant is the date the shares of TrizecHahn Corporation were purchased and placed into a trust for the employees. The unamortized portion is included in combined Owners' equity as unearned compensation.

k. Income (Loss) Per Share (unaudited)

As part of the Reorganization, Trizec Properties will modify the number of its issued and outstanding shares of common stock such that the number of its issued and outstanding shares of common stock will in aggregate equal the number of issued and outstanding TrizecHahn Corporation subordinate voting shares and multiple voting shares. This will result in approximately 149,349,698 shares of common stock based on the number of voting shares of TrizecHahn Corporation outstanding on December 31, 2001. The number of shares actually issued will differ from this amount based on the actual number of TrizecHahn voting shares on the effective date of the Reorganization.

Unaudited basic and diluted net income (loss) per share of common stock have been computed by dividing the net income for each period presented by the number of voting shares of TrizecHahn Corporation outstanding at December 31, 2001. All Trizec Properties common stock equivalents at December 31, 2001 that are expected to be outstanding at the effective date of the Reorganization were considered for the purpose of determining dilutive shares outstanding. The actual number of Trizec Properties common stock equivalents will differ from this amount based on the number of common stock equivalents on the date of the Reorganization.

The Corporation has recognized an extraordinary loss that has increased basic and diluted loss per share by \$0.12 for the year ended December 31, 2001 (December 31, 2000 - decreased basic and diluted income per share by \$0.01; 1999 - nil). In addition, the Corporation has recorded a cumulative effect of a change in accounting principle that has increased basic and diluted loss per share by \$0.03 for the year ended December 31, 2001 (December 31, 2000 - nil; 1999 - nil).

For the year ended December 31, 2001, dilutive shares outstanding were increased by nil (2000 - 1.5 million; 1999 - 1.5 million) in respect of stock options of TrizecHahn that were dilutive and 16.3 million (2000 - 14.8 million; 1999 - 14.8 million) were not included in the computation of diluted income (loss) per share because to do so would have been anti-dilutive for the periods presented. On January 9, 2002, TrizecHahn granted a further 1.2 million options which were not included in the computation of diluted net income (loss) per share because to do so would have been antidilutive for the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

1. Derivative Instruments

The Corporation uses interest rate cap and swap agreements to manage risk from fluctuations in interest rates. Prior to January 1, 2001 the Corporation accounted for interest rate cap contracts as hedges and, as a result, the carrying values of the financial instruments were not adjusted to reflect their current market values. Any amounts receivable or payable arising from interest rate cap contracts were recognized as an adjustment of interest expense. Premiums paid to arrange interest rate cap contracts were deferred and amortized to interest expense over the term of the contracts. Under interest rate swap agreements, payments or receipts were recognized as adjustments to interest expense. The Corporation believes it deals with creditworthy financial institutions as counterparties.

The Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and SFAS No. 138 (collectively, "SFAS No. 133"), as of January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Corporation's combined consolidated balance sheet at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS No. 133 are required to be reported through the statement of operations. For derivatives designated as hedging instruments in qualifying cash flow hedges, the effective portion of changes in fair value of the derivatives is recognized in other comprehensive income (loss) until the forecasted transactions occur, and the ineffective portions are recognized in the statement of operations.

The Corporation uses certain interest rate protection agreements to manage risks from fluctuations in variable interest rates, as well as to hedge anticipated future financing transactions. Upon adoption of SFAS No. 133, the Corporation recorded an asset of approximately \$709 (included in prepaid expenses and other assets) and recorded a liability of approximately \$709 (included in other accrued liabilities) related to the fair values of these agreements. In addition, the Corporation expensed deferred charges of \$280 related to these agreements. This was reflected in net income as a cumulative effect of a change in accounting principle. The Corporation's derivatives also include investments in warrants to purchase shares of common stock of other public companies. Based on the terms of the warrant agreements, the warrants meet the definition of a derivative and accordingly must be marked to fair value with the impact reflected in the statement of operations. Prior to January 1, 2001, the Corporation had been recording the warrants at fair value through accumulated other comprehensive income (loss) as available-for-sale securities under SFAS No. 115. Upon adoption of SFAS No. 133, the Corporation reclassified \$4,351, the unrealized holding loss in respect of the warrants, from accumulated other comprehensive income (loss) to a cumulative effect of a change in accounting principle.

For the year ended December 31, 2001, the Corporation recorded derivative losses of \$456 through the statement of operations, which included the total ineffectiveness of all cash flow hedges. The Corporation also recorded a derivative loss and write-down of \$15,371, that has been included in loss from securities investments in the statement of operations. In addition, the Corporation recorded unrealized derivative losses through other comprehensive income of \$1,818. No material amounts are expected to be reclassified from other comprehensive income into earnings within the next twelve months.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

m. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

n. Minority Interest

The Corporation currently owns 100% of the general partner units, and 98% of the limited partnership units ("Units") at December 31, 2001 (December 31, 2000 - 97%) of TrizecHahn Mid-Atlantic Limited Partnership (the "Partnership"). The remaining Units are held by unrelated limited partners who have a right to redeem their Units before 2012, at a redemption value equal to the fair market value of an equivalent number of subordinate voting ("SVS") shares of TrizecHahn. Upon redemption of the Units the Partnership is required to pay cash to the holder in an amount equal to the redemption value, or the Corporation has the option of triggering the effective issuance of freely tradable SVS shares of TrizecHahn. The redemption value of the outstanding Units is \$4,386 at December 31, 2001 (December 31, 2000 - \$4,819).

The change in redemption value is recorded as an allocation to minority interest in the consolidated statements of operations.

o. Recent Accounting Pronouncements

In December 1999, the Securities Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition, which outlines basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in the financial statements. The adoption of SAB 101 had no significant impact on the Corporation.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". These new standards eliminate pooling as a method of accounting for business combinations, and feature new accounting rules for goodwill and intangible assets. SFAS No. 141 was effective for business combinations initiated from July 1, 2001. SFAS No. 142 will be adopted on July 1, 2002. The Corporation is currently assessing the impact of the adoption of SFAS No. 142.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

o. Recent Accounting Pronouncements (cont'd)

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business". SFAS 144 requires long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Under SFAS No. 144, certain conditions are required to be met for a property to be classified as held for disposition. Under the transitional rules of the standard, properties held for disposition as at the date of adoption are required to satisfy these conditions within one year of adoption. Properties currently held for disposition that do not meet such conditions by December 31, 2002 will be required to be reclassified from held for disposition to held and used at that date. Reclassification, if any, is measured at the lower of the asset's carrying amount before it was classified as held for disposition, adjusting for any depreciation that would have been recognized had the asset been continuously classified as held and used, and fair value at the date of reclassification. The Corporation will adopt this standard on January 1, 2002 and expects no impact with respect to the adoption of this standard.

3. REAL ESTATE

The Corporation's investment in real estate is comprised of:

	December 31	
	2001	2000
Properties		
Held for the long term	\$ 4,329,889	\$ 4,243,712
Held for disposition	630,558	335,076
	\$ 4,960,447	\$ 4,578,788

Properties held for disposition include certain properties that are determined to no longer be core assets under the strategic plan of the Corporation which was adopted in late 2000, and as such the Corporation has decided to dispose of these properties in an orderly manner over a reasonable sales period.

At December 31, 2001 properties held for disposition included three retail/entertainment projects, three technology center development properties, two non-core office properties and certain remnant retail land sites.

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

3. REAL ESTATE (CONT'D)

a. Properties – Held for the Long Term

	December 31	
	2001	2000
Rental properties		
Land	\$ 519,682	\$ 472,831
Buildings and improvements	3,866,714	3,683,300
Tenant improvements	250,824	202,036
Furniture, fixtures and equipment	14,060	12,162
	4,651,280	4,370,329
Less: accumulated depreciation	(432,562)	(295,786)
	4,218,718	4,074,543
Properties under development	82,515	73,435
Properties held for future development	28,656	95,734
	\$ 4,329,889	\$ 4,243,712

b. Properties – Held for Disposition

	December 31	
	2001	2000
Rental properties	\$ 275,983	\$ 108,154
Properties under development	306,630	223,625
Properties held for development	47,945	3,297
	\$ 630,558	\$ 335,076

These properties are carried at the lower of depreciated cost less estimated impairment losses where appropriate, or estimated fair value less costs to sell. Implicit in management's assessment of fair values are estimates of future rental and other income levels for the properties and their estimated disposal dates. In certain cases the estimated fair values have been calculated taking into consideration estimated disposal dates extending into 2004. Due to the significant measurement uncertainty of determining fair value, actual proceeds to be realized on the ultimate sale of these properties could vary materially from their carrying value.

The results of operations of properties held for disposition are included in revenues and expenses of the Corporation. The following summarizes the condensed results of operations of the properties held for disposition.

	December 31	
	2001	2000
Total revenues	\$ 50,292	\$ 21,639
Less: Operating expenses and property taxes	(23,236)	(9,677)
Property operating income	\$ 27,056	\$ 11,962

The impact of ceasing to depreciate properties held for disposition would have increased depreciation and amortization in the statement of operations for the year ended December 31, 2001 by \$7,349 (year ended December 31, 2000 – nil; 1999 – nil).

3. REAL ESTATE (CONT'D)

c. Cost to complete

Expenditures required to complete properties under development are estimated at \$53,244 at December 31, 2001 (December 31, 2000 - \$352,281), for which construction financing facilities have been arranged.

d. Ground Lease Obligations

Properties carried at a net book value of approximately \$841,679 at December 31, 2001 (December 31, 2000 – \$630,683) are situated on land subject to lease agreements expiring in the years 2017 to 2086. Minimum land rental payments for each of the next five years and beyond are as follows:

Years ending December 31, 2002	\$ 1,720
2003	1,752
2004	1,787
2005	1,787
2006	1,789
Thereafter	259,406
	\$ 268,241

Additional rent is payable under certain land lease agreements based on rental revenue or net cash flow from properties. Included in operating expenses for the year ended December 31, 2001 is \$5,120 of ground lease payments (December 31, 2000 – \$3,646; 1999 – \$3,326).

e. Future Minimum Rents

Future minimum rentals to be received under non-cancellable tenant leases in effect at December 31, 2001, excluding operating expense recoveries, are as follows:

Years ending December 31, 2002	\$ 670,814
2003	608,017
2004	544,162
2005	481,424
2006	415,107
Thereafter	1,437,260
	\$ 4,156,784

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

3. REAL ESTATE (CONT'D)

f. Acquisitions

During the years presented, the Corporation acquired the following properties:

(i) Acquisitions during the year ended December 31, 2001

<u>Date Acquired</u>	<u>Property</u>	<u>Location</u>	<u>Rentable Sq.ft.</u> (unaudited)	<u>Total Acquisition Cost</u>
May 11	Two Balston Plaza	Arlington, VA	222,000	\$ 44,530
May 15	550 West Washington	Chicago, IL	372,000	77,335
May 24	1225 Connecticut, N.W.	Washington, DC	224,000	59,875
November 10	10 and 120 Riverside – acquisition of ground lease and other obligations	Chicago, IL	-	21,000
				<u>\$ 202,740</u>

(ii) Acquisitions during the year ended December 31, 2000

<u>Date Acquired</u>	<u>Development Sites</u>	<u>Location</u>	<u>Total Acquisition Cost</u>
September 29	Valley Industrial Park	Seattle, WA	\$ 46,791
October 15	150 and 200 Inner Belt Road	Boston, MA	27,589
October 16	Clybourn Center	Chicago, IL	11,967
			<u>\$ 86,347</u>

(iii) Acquisitions during the year ended December 31, 1999

<u>Date Acquired</u>	<u>Property</u>	<u>Location</u>	<u>Rentable Sq.ft.</u> (unaudited)	<u>Total Acquisition Cost</u>
January 11	1250 Connecticut	Washington, DC	171,000	\$ 43,884
January 15	Galleria Towers I, II and III	Dallas, TX	1,408,000	218,163
April 30	One New York Plaza	New York, NY	2,447,000	398,783
				<u>\$ 660,830</u>

3. REAL ESTATE (CONT'D)

g. Dispositions

During the years presented, the Corporation disposed of the following properties and recorded the following gain (loss) on sale of real estate and allowance for loss on properties held for disposition:

(i) Dispositions during the year ended December 31, 2001

Date Sold	Property	Location	Rentable Sq.ft.	Sales Price	Gain/ (Loss) On Sale
			(unaudited)		
January 16	Camp Creek Business Center	Atlanta, GA	258,000	\$ 16,860	\$ 497
January 19	First Stamford Place	Stamford, CT	774,000	59,587	984
February 9	Fisher/Albert Kahn	Detroit, MI	905,000	28,677	(5,116)
June 30	Park Central Land	Dallas, TX	-	2,092	1,179
-	Residual lands	Various	-	7,337	403
				<u>\$ 114,553</u>	<u>(2,053)</u>
	Allowance for loss on properties held for disposition				<u>(304,991)</u>
					<u>\$ (307,044)</u>

Office properties

The Corporation acquired three technology center development properties in Seattle, Boston and Chicago, in late 2000. During the current year, the Corporation explored alternatives other than developing these properties as technology centers. After considering these alternatives, the Corporation decided to dispose of these properties in the near term in an orderly manner. As a result, the Corporation recorded an allowance for loss of \$62,933 for the year ended December 31, 2001. In addition, an allowance for loss of \$2,614 was recorded related to the planned sale of two non-core U.S. office assets. The five properties have been reclassified to properties held for disposition.

U.S. retail/entertainment properties

By December 31, 2001, the Corporation had opened all of its retail/entertainment projects. The retail/entertainment component of Hollywood & Highland in Los Angeles, California opened on November 8, 2001, while the hotel component opened on December 26, 2001. Paseo Colorado in Pasadena, California opened on September 28, 2001. Desert Passage in Las Vegas, Nevada had opened in August 2000. Consistent with the previously announced strategy to focus on the U.S. office business, the Corporation intends to pursue an orderly disposition of these properties. At the end of 2000, these assets were classified as held for disposition, and are carried at the lower of cost and estimated fair value less cost to sell.

Hollywood & Highland and Desert Passage depend on tourism for a significant portion of their visitors. The events of September 11, 2001 have significantly impacted the levels of tourism, and furthermore have created significant general economic uncertainty. In addition, the Aladdin Hotel and Casino, which adjoins Desert Passage, filed for Chapter 11 reorganization on September 28, 2001. During the fourth quarter, the Corporation commissioned third party appraisals of its retail/entertainment properties. These appraisals indicated a decline in the fair value of these assets and accordingly, the Corporation recorded an allowance for loss of \$239,444 to reduce the carrying value of these assets. Of this amount, \$217,039 relates to the Hollywood & Highland complex and \$22,405 relates to Desert Passage and certain remnant retail assets.

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

3. REAL ESTATE (CONT'D)

g. Dispositions (cont'd)

(ii) Dispositions during the year ended December 31, 2000

Date Sold	Property	Location	Rentable Sq.ft.	Sales Price	Gain/ (Loss) On Sale
			(unaudited)		
June 15	The Interchange	Atlanta, GA	118,000	\$ 16,012	\$ 1,533
August 7	Encino Gateway	Los Angeles, CA	338,000	51,572	(361)
August 7	The Pinkerton Building	Los Angeles, CA	200,000	32,462	6,360
September 1	Newmarket Business Park (Land)	Atlanta, GA	-	1,909	329
September 6	Fashion Outlet of Las Vegas	Primm, NV	363,000	41,592	756
September 12	One Concord Center	Concord, CA	346,000	53,579	14,957
September 28	Highlands Overlook	Atlanta, GA	246,000	10,835	(2,437)
October 20	Courthouse Square	Alexandria, VA	114,000	16,143	1,993
November 3	6006 Executive Blvd.	Rockville, MD	42,000	7,504	(815)
November 3	Twinbrook Metro Park	Rockville, MD	554,000	78,672	(10,031)
November 20	Two Pershing Square	Kansas City, MO	511,000	70,693	8,092
December 15	Twinbrook Office Center	Rockville, MD	163,000	26,897	(13)
December 21	Spring Park/Sugarland West	Herndon, VA	426,000	66,495	16,499
				<u>\$ 474,365</u>	<u>36,862</u>
	Allowance for loss on properties held for disposition				<u>(3,677)</u>
					<u>\$ 33,185</u>

In conjunction with the sales in 2000, the Corporation incurred prepayment premiums, wrote-off unamortized deferred financing costs and incurred other costs for the early retirement of debt totalling \$2,319 (\$1,491, net of tax). This has been recorded as an extraordinary item in the statement of operations.

(iii) Dispositions during the year ended December 31, 1999

In the fourth quarter of 1999, the Corporation sold certain non-core retail development sites and recorded an allowance for loss on the planned sale of the remaining retail properties. The Corporation recorded an aggregate estimated loss of \$41,373.

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

4. UNCONSOLIDATED REAL ESTATE JOINT VENTURES

The Corporation participates in incorporated and unincorporated joint ventures and partnerships with other venturers in various operating properties which are accounted for using the equity method. In most instances, these projects are managed by the Corporation.

- a. The following is a summary of the Corporation's ownership in unconsolidated real estate joint ventures:

Entity	Property and Location	Corporation's Economic Interest ⁽¹⁾	
		December 31	
		2001	2000
Marina Airport Building, Ltd.	Marina Towers North and South, Los Angeles, CA	50%	50%
WHTCP Realty L.L.C.	Ernst & Young Tower, Los Angeles, CA	25%	25%
Dresser Cullen Venture	M.W. Kellog Tower, Houston, TX	50%	50%
Main Street Partners, LP	Bank One Center, Dallas, TX	50%	50%
Trizec New Center Development Associates (A Partnership)	New CenterOne, Detroit, MI	67%	67%
1114 TrizecHahn-Swig, L.L.C.	The Grace Building, New York, NY	50%	50%
1141 TrizecHahn-Swig, L.L.C.	World Apparel Center, New York, NY	50%	50%
1460 Leasehold TrizecHahn Swig L.L.C./ 1460 Fee TrizecHahn Swig L.L.C.	1460 Broadway, New York, NY	50%	50%
TrizecHahn Waterview LP	Waterview Development, Arlington, VA	80%	80%
TrizecHahn Hollywood Hotel L.L.C. ⁽³⁾⁽⁴⁾	Hollywood & Highland Hotel, Los Angeles, CA	84.5%	84.5%
Aladdin Bazaar L.L.C. ^{(2) (3)(4)}	Desert Passage, Las Vegas, NV	100%	65%

- (1) The amounts shown above approximate the Corporation's economic ownership interest for the periods presented. Cash flow from operations, capital transactions and net income are allocated to the joint venture partners in accordance with their respective partnership agreements. The Corporation's share of these items is subject to change based on, among other things, the operations of the property and the timing and amount of capital transactions. The Corporation's legal ownership may differ.
- (2) On March 30, 2001, Aladdin Bazaar's L.L.C. agreement was amended. The amendment, among other provisions, gave the Corporation sole authority to market and sell the shopping center and terminated the other partner's right to participate in the management or control of the shopping center. As of April 1, 2001 the Corporation accounts for the property and its operations under the consolidation method of accounting.
- (3) The interest in Hollywood & Highland Hotel and Desert Passage have been designated as held for disposition.
- (4) As described in Note 3, the Corporation, in 2001, recorded allowances for loss on sale in respect of these properties.

4. UNCONSOLIDATED REAL ESTATE JOINT VENTURES (CONT'D)

b. Unconsolidated Real Estate Joint Venture Financial Information

The following represents combined summarized financial information of the unconsolidated real estate joint ventures.

Balance Sheets	December 31	
	2001	2000
Assets		
Real estate, net	\$ 1,206,887	\$ 1,403,853
Other assets	<u>157,973</u>	<u>183,672</u>
Total Assets	<u>\$ 1,364,860</u>	<u>\$ 1,587,525</u>
Liabilities		
Mortgage debt	\$ 687,305	\$ 834,140
Other liabilities	<u>73,636</u>	<u>84,306</u>
Partners' equity	<u>603,919</u>	<u>669,079</u>
Total Liabilities and Equity	<u>\$ 1,364,860</u>	<u>\$ 1,587,525</u>
Corporation's Share of Equity	<u>\$ 289,242</u>	<u>\$ 384,038</u>
Corporation's Share of Mortgage Debt	<u>\$ 351,063</u>	<u>\$ 432,445</u>

Statements of Operations	For the years ended December 31		
	2001	2000	1999
Total Revenues	<u>\$ 206,218</u>	<u>\$ 215,847</u>	<u>\$202,323</u>
Expenses			
Operating and other	94,577	94,182	89,671
Interest	45,381	53,905	39,406
Depreciation and amortization	<u>37,314</u>	<u>28,710</u>	<u>29,341</u>
Total Expenses	<u>177,272</u>	<u>176,797</u>	<u>158,418</u>
Net Income	<u>\$ 28,946</u>	<u>\$ 39,050</u>	<u>\$ 43,905</u>
Corporation's Share of Net Income	<u>\$ 12,952</u>	<u>\$ 19,417</u>	<u>\$ 16,207</u>

c. Liability for Obligations of Partners

The Corporation is contingently liable for certain obligations of its partners in such ventures. In each case, all of the assets of the venture are available for the purpose of satisfying such obligations. The Corporation had guaranteed or was otherwise contingently liable for approximately \$12,968 as of December 31, 2001 (December 31, 2000 – \$68,335) of its partners' share of recourse property debt.

5. INVESTMENT IN SEARS TOWER

Mortgage Receivable

On December 3, 1997, the Corporation purchased a subordinated mortgage and an option to purchase the Sears Tower in Chicago (the "Investment in Sears Tower"), for \$70 million and became the residual beneficiary of the trust that owns the Sears Tower. In addition, the Corporation assumed responsibility for property management and leasing services. The Corporation's mortgage is subordinate to an existing non-recourse participating first mortgage which is serviced only to the extent of available cash flow. Beginning in 2002, certain minimum interest payments are required under the participating first mortgage. The minimum interest payment for 2002 is \$37,500, increasing to \$51,900 for each of 2003 and 2004. The maturity date for this mortgage is July 2005. In order to retire all amounts collateralized by the first mortgage, including the lender's participating interest in cash flow, the lender must receive an amount sufficient to provide it with an internal rate of return of 8.6858%. Excluding the lender's participating interest in cash flow, the balance of the first mortgage, including accrued interest is \$778,903 at December 31, 2001 (December 31, 2000 – \$776,733).

The subordinated mortgage held by the Corporation, which matures in July 2010, has a balance, including accrued interest, of \$363,065 at December 31, 2001, (December 31, 2000 – \$345,694) and has certain participation rights to the extent of available cash flow. As excess cash flow is not currently available to service the subordinated mortgage, no interest income has been recognized for the year ended December 31, 2001, 2000 and 1999. The fair value of the Investment in Sears Tower is estimated by management to be approximately \$70 million.

The Sears Tower is currently owned by a trust established for the benefit of an affiliate of Sears, Roebuck and Co. ("Sears"). The trust has a scheduled termination date of January 1, 2003. At any time prior to January 1, 2003, Sears has the right to acquire title to the building from the trust in exchange for readily marketable securities having a value equal to the amount, if any, by which the appraised value of the building exceeds the amount of all indebtedness collateralized by the building.

If Sears acquires the building pursuant to its right of substitution, the trust will immediately terminate and any marketable securities transferred by Sears to the trust would be distributed to the Corporation as residual beneficiary of the trust. Sears would hold title to the building subject to all indebtedness, including the Corporation's subordinated mortgage, subject to the Corporation's rights under the option. The Corporation's option to purchase the building is exercisable between January 2003 and July 2005 at a price of approximately \$950 million plus 40% of the amount by which the appraised value of the building exceeds \$1,063 million. If the building is purchased under the option, it would be acquired subject to all outstanding indebtedness collateralized by the building, and the amount of such indebtedness would be credited against the purchase price.

If Sears does not exercise its right of substitution, the assets of the trust, subject to the participating first mortgage, would be distributed on the scheduled termination date to the Corporation as the residual beneficiary.

6. DEFERRED CHARGES

Deferred charges consist of the following:

	December 31	
	2001	2000
Leasing costs	\$ 147,570	\$ 99,144
Financing costs	39,156	34,835
	186,726	133,979
Less: Accumulated amortization	(48,672)	(36,357)
	\$ 138,054	\$ 97,622

Interest expense for the year ended December 31, 2001 includes \$9,586 of amortized deferred financing costs (year ended December 31, 2000 – \$16,102; 1999 – \$13,098).

7. MORTGAGE DEBT AND OTHER LOANS

	Properties Held for the Long Term		Properties Held for Disposition		Total Debt			
	Weighted average interest rates at Dec. 31, 2001	Dec. 31, 2001	Weighted average interest rates at Dec. 31, 2001	Dec. 31, 2001	Weighted average interest rates at Dec. 31, 2001	Dec. 31, 2001	Weighted average interest rates at Dec. 31, 2000	Dec. 31, 2000
Collateralized property loans:								
At fixed rates	6.89%	\$2,106,664	-	\$ -	6.89%	\$2,106,664	7.17%	\$1,566,018
At variable rates	2.58%	526,771	3.61%	359,337	3.00%	886,108	7.98%	712,390
Other loans	0.33%	8,360	12.00%	16,666	8.10%	25,026	5.89%	48,499
	6.01%	\$2,641,795	3.98%	\$ 376,003	5.76%	\$3,017,798	7.39%	\$2,326,907

In the table above, mortgage debt and other loans have been presented on a basis consistent with the classification of the underlying collateralized properties, by properties held for the long term or held for disposition.

a. Collateralized Property Loans

Property loans are collateralized by deeds of trust or mortgages on properties, and mature at various dates between February 1, 2002 and May 15, 2011. The carrying value, net of accumulated depreciation, of encumbered properties at December 31, 2001 was approximately \$4,280 million (December 31, 2000 – \$3,845 million).

As at December 31, 2001, the Corporation has fixed the interest rates on \$150 million (as at December 31, 2000 – nil) of the debt classified as fixed, in the above table, by way of interest rate swap contracts with a weighted average interest rate of 6.01% and maturing on March 15, 2008. The cost to unwind these interest swap contracts is approximately \$3.6 million as at December 31, 2001 (year ended December 31, 2000 – \$nil).

7. MORTGAGE DEBT AND OTHER LOANS (CONT'D)

b. Other Loans

The other loan in the amount of \$16,666 matures on November 19, 2069.

c. Principal Repayments

Principal repayments of debt outstanding at December 31, 2001 are due as follows:

	Properties Held for the Long Term	Properties Held for Disposition	Total
Years ending December 31, 2002	\$ 90,871	\$ 106,791	\$ 197,662
2003	160,714	252,546	413,260
2004	362,783	-	362,783
2005	93,581	-	93,581
2006	731,721	-	731,721
Subsequent to 2006	1,202,125	16,666	1,218,791
	\$ 2,641,795	\$ 376,003	\$ 3,017,798

The estimated fair value of the Corporation's long-term debt approximates its carrying value at December 31, 2001 and 2000.

d. Refinancing and loss on early retirement of debt

On May 17, 2001, the Corporation retired early \$1.2 billion of existing long-term debt, which was funded through the issuance of \$1.4 billion of commercial mortgage-backed securities. As a consequence of these early retirements, the Corporation recorded an extraordinary charge of \$17,967, consisting of contractual redemption premiums of \$13,755, and the write-off of unamortized deferred financing costs of \$4,211.

e. Line of Credit

The Corporation has negotiated a three-year, \$350 million unsecured revolving credit facility with a group of banks. In December 2001, \$200 million of the facility was committed and closed with a group of four banks. The remaining \$150 million of the facility has been syndicated to a group of seven banks and closed in early January 2002.

The amount of the credit facility available to be borrowed at any time, is determined by the unencumbered properties that the Corporation owns and that satisfy certain conditions of eligible properties. The amount currently eligible to be borrowed is \$314 million. At December 31, 2001, no amounts were outstanding under this facility

7. MORTGAGE DEBT AND OTHER LOANS (CONT'D)

f. Limitations on Indebtedness

The Corporation conducts its operations through various subsidiaries which are party to loan agreements containing provisions that require the maintenance of financial ratios and impose limitation on additional indebtedness and possible distribution in respect of capital stock.

g. Guarantees of Indebtedness

As at December 31, 2001, \$241,616 (December 31, 2000 – \$310,850) of mortgage debt and other loans, including the Corporation's pro rata share of certain unconsolidated joint venture mortgage debt, is guaranteed by THOPL and/or THHL, both related parties.

8. REORGANIZATION COSTS

Based on the strategic plan adopted at the end 2000, the Corporation has targeted general and administrative expense savings from the benefits to be derived from both functional and office location consolidations. As a result of a comprehensive review of its operations during 2001 for this purpose, the Corporation initiated a reorganization plan to simplify its management structure and centralize accounting, payroll and information services functions in Chicago. The reorganization plan will ultimately result in the separation of approximately 150 employees, exclusive of any new hires, by the end of 2002.

During the year ended December 31, 2001, the Corporation recorded as reorganization costs, a pre-tax charge of \$15,922 to provide for employee severance, benefits and other costs associated with implementing the reorganization plan. Included in this charge are \$4,201 of non-cash costs which represent the accelerated recognition of a portion of the entitlements pursuant to the escrowed share grant arrangement for certain employees (\$1,196), the donation of 40,000 shares of Common Stock (\$2,000) and the write-off of furniture, fixtures and leasehold costs at redundant locations (\$1,005). As at December 31, 2001, \$6,718 of anticipated cash costs had been paid, with \$5,003 included in accounts payable and accrued liabilities.

In addition to the reorganization costs associated with executing the plan, the Corporation anticipates incurring ongoing incremental transition costs including relocation, hiring and consulting costs. These costs are expensed as incurred. During the year ended December 31, 2001, the Corporation incurred \$1,953 in such costs which are included in general and administrative expense.

In the current year, for REIT qualification purposes, Trizec Properties issued and donated 400 shares of its common stock, par value \$0.01, to each of 100 charitable organizations. The aggregate 40,000 shares of Common Stock have, been estimated by management to have a fair value of approximately \$2,000, and such amount has been recorded as a donation expense and included in reorganization costs.

During 2000, the Corporation recorded \$4,200 for employee severance and benefits associated with the planned wind-down of the retail/entertainment business. In addition, the Corporation incurred \$2,480 (year ended December 31, 1999 – \$4,950) of incremental professional advisory fees in order to explore certain strategic transactions and costs incurred to qualify as a REIT. At December 31, 2001, an amount of \$13,342 (December 31, 2000 - \$13,818) was included in accrued severance liabilities relating to remaining liabilities with respect to the retail/entertainment business.

9. LOSS FROM SECURITIES INVESTMENTS

During the year ended December 31, 2001, the Corporation fully provided for the cost of securities investments in certain building telecommunication and service providers, recording a \$15,371 charge, which was net of the recognition of \$3,542 of deferred license revenue on licenses that were terminated, as events and circumstances confirmed that the decline in value of these assets was considered to be other than temporary. This provision included the Corporation's investment in Allied Riser Communications Corporation, Broadband Office Inc., Cypress Communications Inc. and OnSite Access Inc., which were originally received at no cash cost in exchange for providing licenses for building access rights.

In addition, included in the loss from securities investment is the investment in Captivate Network Inc., a privately held company, which was the Corporation's only other investment in a building service provider. This investment consisted of common stock and warrants convertible into common stock. In November 2001, the Corporation's subordinate ownership equity interest was significantly diluted as a result of preferential funding by other investors.

10. INCOME AND OTHER CORPORATE TAXES

a. Trizec Properties REIT Election

In December 2000, Trizec Properties determined that it would elect to be taxed as a REIT pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The election will be effective as of January 1, 2001. In general, a corporation that distributes at least 90% of its REIT taxable income to its shareholders in any taxable year, and complies with certain other requirements (relating primarily to its organization, the nature of its assets and the sources of its revenues) is not subject to United States federal income taxation to the extent of the income which it distributes. Trizec Properties believes that it substantially met the qualifications for REIT status as of December 31, 2001 and December 31, 2000 and intends to satisfy all such qualifications in the future. Accordingly no provision has been made in the combined financial statements for federal income taxes in 2001 in respect of Trizec Properties.

Trizec Properties's conversion to REIT status had the following impact on taxes for the year ended December 31, 2000:

For the year ended December 31	2000
Benefit (provision)	
i. Elimination of Trizec Properties's net deferred tax liability at December 31, 2000	\$364,950
ii. Current taxes payable arising from REIT election	(53,294)
Net tax benefit	\$311,656

- i. Trizec Properties believes that it will not be liable for income taxes at the federal level in the United States, or in most of the states in which it operates, in future years. Accordingly, the Corporation eliminated all of Trizec Properties's existing deferred tax assets and liabilities relating to future years by crediting the income statement with an amount totalling \$364,950 at December 31, 2000.
- ii. The election of REIT status will result in the deemed liquidation of all subsidiaries owned by Trizec Properties. The gain arising from this deemed liquidation will result in net taxes payable of \$53,294.

10. INCOME AND OTHER CORPORATE TAXES (CONT'D)

a. Trizec Properties REIT Election (cont'd)

iii. In connection with its election to be taxed as a REIT, Trizec Properties will also elect to be subject to the "built-in gain" rules. Under these rules, taxes may be payable at the time and to the extent that the net unrealized gains on Trizec Properties's assets at the date of conversion to REIT status are recognized in taxable dispositions of such assets in the ten-year period following conversion. Such net unrealized gains are estimated to be approximately \$2 billion. Management currently believes that Trizec Properties will not incur such taxes on built-in gains during the ten-year period as substantially all of its assets are not held for disposition and due to the potential for Trizec Properties to make non-taxable asset dispositions, such as like-kind exchanges. At December 31, 2000, Trizec Properties has disposed of certain assets and has identified assets for future disposition but no material future tax liability is anticipated.

b. Deferred tax liability

The net deferred tax liability at December 31, 2001 of \$60,000 (2000 - \$50,767) relates to differences in depreciation and amortization, the tax basis of acquired assets and treatment of interest and certain other costs.

c. Provision for income and other corporate taxes

The information which follows presents Trizec Properties on a pre and post REIT qualification basis. The Corporation does not expect to provide for deferred income taxes relating to Trizec Properties in subsequent periods. The provision for income and other corporate taxes is as follows:

	For the year ended December 31		
	2001	2000	1999
Benefit from (Provision for)			
Income taxes			
Current			
- REIT election	\$ -	\$ (53,294)	\$ -
Deferred			
- operations	(7,277)	(49,410)	(21,627)
- REIT election	-	364,950	-
- contribution of retail/entertainment assets to REIT	(1,649)	-	-
Franchise, capital and alternative minimum tax	(4,869)	(9,406)	(1,188)
	\$(13,795)	\$252,840	\$(22,815)

Trizec Properties is part of a consolidated group for Federal and State income tax filing purposes. For Trizec Properties, prior to electing to be taxed as a REIT, and for other companies outside the Trizec Properties group and included in the combined financial statements, deferred income taxes are provided for the year ended December 31, 2001 at a rate of 35% (year ended December 31, 2000 - 39.45%; 1999 - 39.45%) of income which reflected a Federal rate of 34% and a weighted average State rate of 1% (December 31, 2000 - 4.45%; 1999 - 4.45%). Deferred income taxes resulted primarily from temporary differences and the timing of recognition of net operating loss carry-forwards and asset cost bases, as well as differences in asset useful lives and depreciation methods, for financial and tax reporting purposes.

10. INCOME AND OTHER CORPORATE TAXES (CONT'D)

c. Provision for income and other corporate taxes (cont'd)

Due to the planned contribution of THDI including its retail/entertainment assets to Trizec Properties and the fact that Trizec Properties is a REIT, all of THDI's remaining deferred tax assets at December 31, 2001 of \$1,649 relating to future years was eliminated and charged to income tax expense in the current year.

- d.** The provision for taxes on income differs from the provision computed at statutory rates as follows:

	For the year ended December 31		
	2001	2000	1999
Income tax recovery (expense) computed at combined federal and state statutory rates	\$ -	\$ (51,706)	\$ (23,549)
Franchise, capital and alternative minimum tax	(4,869)	(9,406)	(1,188)
THDI income tax recovery computed at combined federal and state statutory rates	73,768	-	-
THDI allowance for loss not tax effected	(82,734)	-	-
Contribution of THDI to REIT	(1,649)	-	-
Impact of REIT election on Trizec Properties	-	311,656	-
Other	1,689	2,296	1,922
Total tax recovery (expense)	\$(13,795)	\$ 252,840	\$ (22,815)

Trizec Properties has elected to be taxed as a REIT effective January 1, 2001.

11. RELATED PARTY INFORMATION

a. Transactions During 2001

- i.** On September 17, 2001, \$34,000 in cash dividends were paid on Trizec Properties Common Stock.
- ii.** Pursuant to the Reorganization the Corporation completed the following transactions during 2001.
 - The Corporation declared and paid a cash dividend of \$465,000 to all common stockholders, representing pre-REIT earnings and profits and estimated 2001 taxable income.
 - On December 3, 2001 Trizec Properties Series A Convertible Preferred Stock were converted into 357.6 shares of Trizec Properties Common Stock, par value \$0.01 per share.
 - On December 3, 2001 Trizec Properties entered into a recapitalization agreement with its sole shareholder pursuant to which all issued and outstanding shares of Trizec Properties Common Stock were exchanged for:
 - 38,000,000 shares of Trizec Properties Common Stock, par value \$0.01 per share;
 - Trizec Properties issued 100 shares of Trizec Properties Special Voting Stock, par value \$0.01 per share; and,
 - Trizec Properties issued 100,000 shares of Trizec Properties Class F Convertible Stock, par value \$0.01 per share.

11. RELATED PARTY INFORMATION (CONT'D)

a. Transactions During 2001 (cont'd)

- On December 11, 2001 certain U.S. technology center assets that were included in these combined consolidated financial statements but held directly by TrizecHahn were transferred to the Corporation. Pursuant to the Reorganization, these assets, net of related debt and other liabilities, which were held by a separate subsidiary of TrizecHahn (“823 Inc.”) were transferred to the Corporation in consideration for issuing to TrizecHahn 180,000 Trizec Properties Common Stock, par value \$0.01 per share. As a result of this transaction, Trizec Properties Common Stock and Additional paid-in capital was increased by \$2 and \$16,548 respectively, with a corresponding decrease to Advances to parent and affiliated companies. As a consequence 823 Inc. became a wholly-owned subsidiary of Trizec Properties.
- On December 28, 2001 the Corporation filed an amended and restated Certificate of Incorporation authorizing 750,000 shares of Class C Convertible Preferred Stock, par value \$1.00 per share. Pursuant to a private placement offering of Class C Convertible Preferred Stock to its common stockholders, and subscription thereof, Class C Convertible Preferred Stock was subscribed for in the amount of \$414,154. The price per share was \$1,100.

b. Transactions During 2000

On December 18, 2000, the Corporation issued 750,000 shares of Series B Preferred Stock to THOPL. The consideration for the preferred shares was a reduction, pursuant to the trust indenture, in the amount of \$750,000, of the principal amount of the 12% Senior Notes due to THOPL by the Corporation.

On December 19, 2000, THOPL contributed the 750,000 shares of Series B Preferred Stock to Trizec Properties’s direct parent company.

c. Transactions During 1999

- i. On September 20, 1999, the Corporation completed an intercompany debt reorganization by entering into a trust indenture relating to the issue by the Corporation of up to \$1,100,000 principal amount of Senior Notes at a rate of 12% per annum due September 30, 2009 (the “Indenture”) pursuant to which:
 - Trizec Properties repaid \$70,000 of intercompany debt owing to its indirect parent company, using funds drawn under an existing credit facility;
 - Trizec Properties repaid \$55,000 of outstanding loans, using funds borrowed from its indirect parent company in consideration for the issuance of \$55,000 of 12% Senior Notes pursuant to the Indenture;
 - Trizec Properties amended the terms of the remaining intercompany debt owing to its indirect parent company and issued \$319,500 of 12% Senior Notes in connection therewith; and
 - Trizec Properties issued \$725,500 of 12% Senior Notes to its immediate parent company as a dividend-in-kind.

11. RELATED PARTY INFORMATION (CONT'D)

c. Transactions During 1999 (cont'd)

- ii. On September 30, 1999, Trizec Properties declared and paid a dividend-in-kind consisting of all of the outstanding shares of common stock of THDI which, up until that time was a wholly-owned subsidiary of Trizec Properties. The increase in combined additional paid-in capital of the Corporation in the amount of \$175,834 reflects the contribution to additional paid-in capital, upon THDI's formation. The net asset book values used in recording the dividend amount were as follows:

Real estate	\$ 83,771
Cash and short-term investments	3,882
Investment in unconsolidated real estate ventures	90,624
Other assets	39,490
	217,767
Long-term debt	24,663
Other liabilities	17,270
	\$175,834

- iii. On December 21, 1999, the \$725,500 of 12% Senior Notes were transferred by the direct Parent company to THOPL. In addition, Trizec Properties issued 350,000 shares of Series B Preferred Stock to THOPL. The consideration for the preferred shares was a reduction, in the amount of \$350,000, of the principal amount of the 12% Senior Notes due to THOPL by the Corporation.

d. Other Related Party Information

	December 31	
	2001	2000
Non-interest bearing advances from Trizec Properties to the parent and affiliated companies	\$ 90,633	\$ -
Advances from the parent and affiliated companies:		
Non-interest bearing advances to Trizec Properties	\$ -	\$ 13,187
Non-interest bearing advances to THDI	236,619	179,453
	\$ 236,619	\$ 192,640

The non-interest bearing advances from and to the parent and affiliated companies are unsecured and due on demand.

Included in interest expense for the year ended December 31, 2001 is \$ nil (year ended December 31, 2000 – \$86,200; 1999 – \$61,600) of interest expense paid to the parent and affiliated companies. On December 18, 2000 the Corporation repaid \$750,000 Senior Notes payable through the issuance of Series B Preferred Stock. These notes bore interest at 12%.

For the periods presented, the Corporation, in the normal course of business, reimbursed its parent and/or affiliates for direct third party purchased services and a portion of salaries for certain employees for direct services rendered. A significant portion of the reimbursements were for allocated or direct insurance premiums which, for the year ended December 31, 2001, amounted to \$7,102 (year ended December 31, 2000 – \$7,428; 1999 – \$8,350).

12. REDEEMABLE STOCK

The following classes of stock have been presented on the balance sheet outside of owner's equity as a result of the redemption features available to the holders of the stock.

Trizec Properties

i. Class F Convertible Stock

On December 3, 2001 the Corporation issued 100,000 shares (authorized 100,000 shares) of Class F Convertible Stock with a par value \$0.01 of per share.

The Class F Convertible Stock are non-voting, entitled to cumulative dividends at a fixed rate per annum of \$0.05 per share, redeemable at the Corporation's option or the holder's option after the expiration of the conversion period for \$1.00 per share plus unpaid declared dividends and convertible at the holder's option only upon the occurrence of certain defined events during a defined conversion period into a number of shares of Common Stock based on a defined formula.

The stock is convertible into additional shares of the Corporation's Common Stock so that TrizecHahn and its subsidiaries will not bear a disproportionate burden if tax pursuant to the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, is payable in connection with the corporate reorganization or other limited types of transactions or events.

Cumulative undeclared dividends on the Class F Convertible Stock are nil (2000 – nil; 1999 – nil).

The Corporation cannot declare or pay dividends on any of the other classes of stock (see Note 12) nor can the Corporation redeem or purchase for cancellation any of the other classes of stock unless all unpaid and undeclared cumulative dividends have been declared and paid.

The Corporation has recorded the holder's redemption feature at \$100 at December 31, 2001.

ii. Special Voting Stock

On December 3, 2001, the Corporation issued 100 shares (authorized 100 shares) of Special Voting Stock with a par value \$0.01 of per share.

The Special Voting Stock have special voting rights that give the holder, together with the voting rights of the holder and affiliated companies pursuant to ownership of Common Stock, a majority of votes in elections of directors to the Board of Directors of the Corporation at any time prior to January 1, 2008. Thereafter, the Special Voting Stock are non-voting. In addition, for 66 months after the effective date of the corporate reorganization, this stock will entitle its holder to cash dividends that reflect non-Canadian taxes, principally cross-border withholding taxes, payable in respect of common stock dividends and special voting stock dividends paid to TrizecHahn or its subsidiaries. The Special Voting Stock is redeemable at the Corporation's or the holder's option after a defined date at \$1,000 per share plus unpaid declared dividends.

The Corporation has recorded the holder's redemption feature at \$100 at December 31, 2001.

13. OWNERS' EQUITY

Trizec Properties

i. Series A Convertible Preferred Stock

The Series A Preferred Stock were non-voting, entitled to non-participating and non-cumulative dividends as may have been determined by the Board of Directors, redeemable at the Corporation's option at \$1,000 per share, and convertible at the holder's option into a number of shares of Common Stock based on a defined formula. On December 3, 2001, all outstanding Series A Convertible Preferred Stock were cancelled and converted into 357.6 shares of Common Stock.

ii. Series B Convertible Preferred Stock

The Series B Convertible Preferred Stock are non-voting, entitled to cumulative dividends at a fixed rate per annum of 7.5% of the redemption value, redeemable at the Corporation's option at \$1,000 per share plus unpaid cumulative dividends and convertible at the holder's option into a number of Common Stock equal to \$1,000 divided by the fair market value of one share of Common Stock at the time of conversion as determined by the Board of Directors.

During 2000, 750,000 shares of Series B Preferred Stock with a par value of \$1.00 were authorized and issued to the indirect parent company.

During 1999, 350,000 shares of Series B Preferred Stock with a par value of \$1.00 were authorized and issued to the indirect parent company.

Cumulative undeclared dividends on the Series B Preferred Stock are \$137,723 at December 31, 2001 (2000 – \$55,223; 1999 – \$26,969).

iii. Class C Convertible Preferred Stock

The Class C Convertible Preferred Stock are non-voting, entitled to cumulative dividends at a fixed rate per annum of 7% of the redemption value, redeemable at the Corporation's option after December 28, 2006 at \$1,100 per share plus unpaid cumulative dividends and convertible at the holder's option into a number of Common Stock equal to \$1,100 divided by the fair market value of one share of Common Stock at the time of the conversion as determined by the Board of Directors.

Cumulative undeclared dividends on the Class C Convertible Preferred Stock are \$238 at December 31, 2001 (2000 – nil; 1999 – nil).

iv. Common Stock Dividends

On September 17, 2001, \$34,000 in cash dividends were paid on Trizec Properties Common Stock. On December 17, 2001, \$465,000 in cash dividends were paid on Trizec Properties Common Stock. These cash dividends have been reflected as a distribution of retained earnings of \$213,657 and as a reduction of additional paid-in capital of \$285,343 being the amount in excess of available Trizec Properties combined retained earnings at the time these dividends were declared. For federal income tax purposes, 98.3% of the dividends paid in 2001 represented ordinary income; 0.9% represented a return of capital; 0.4% represented capital gains at 20%; and, 0.4% represented capital gains at 25%.

13. OWNERS' EQUITY (CONT'D)

Trizec Properties

iv. Common Stock Dividends (cont'd)

During 1999, Trizec Properties issued two dividends-in-kind in the amounts of \$725,500 and \$175,834 million. These dividends-in-kind have been reflected as a distribution of retained earnings of \$459,629 and as a reduction of additional paid-in capital of \$441,705 being, the amount in excess of available Trizec Properties retained earnings at the time these dividends were declared.

v. Priority

The capital stock of the Corporation have the following ranking upon the voluntary or involuntary liquidation, dissolution or winding up of, or any distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs (from most senior to the least): Class F Convertible Stock; Special Voting Stock; Class C Convertible Preferred Stock; Class B Convertible Preferred Stock; and Common Stock.

vi. Restrictions on Ownership

Pursuant to the planned reorganization, ownership of the Corporation's capital stock by persons other than qualifying U.S. persons will be limited to 45% by value in the aggregate so that the Corporation will be in a position to attain "domestically-controlled REIT" status for U.S. federal income tax purposes within 63 months after the effective date of the corporate reorganization.

14. SEGMENTED INFORMATION

The Corporation is a fully integrated real estate operating and development company. Its activities include the acquisition, development and operation of office properties and retail/entertainment projects.

The Corporation has determined that its reportable segments are those that are based on the Corporation's method of internal reporting, which classifies its core office operations by regional geographic area. This reflects a management structure with dedicated regional leasing, property management and development teams. The Corporation's reportable segments by geographic region for office operations in the United States are: Northeast, Mid-Atlantic, Southeast, Midwest, Southwest and West. A separate management group heads the retail/entertainment development segment. The Corporation primarily evaluates operating performance based on property operating income which is defined as total revenue including tenant recoveries, parking, fee and other income less operating expenses and property taxes. This excludes property related depreciation and amortization expense. The accounting policies for purposes of internal reporting are the same as those described for the Corporation in Note 2 – Significant Accounting Policies, except that real estate operations conducted through joint ventures are consolidated on a proportionate line-by-line basis, as opposed to the equity method of accounting. All key financing, investing, capital allocation and human resource decisions are managed at the corporate level. Asset information by reportable segment is not reported since the Corporation does not use this measure to assess performance; therefore, the depreciation and amortization expenses are not allocated among segments.

The following presents internal property net operating income by reportable segment for the years ended December 31, 2001, 2000 and 1999.

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

14. SEGMENTED INFORMATION (CONT'D)

For the year ended December 31, 2001, 2000 and 1999

	Office Properties											
	Northeast			Mid-Atlantic			Southeast			Midwest		
	<u>2001</u>	<u>2000</u>	<u>1999</u>									
Property operations												
Total property revenue	\$ 194,962	\$ 189,048	\$ 156,445	\$ 152,982	\$ 148,641	\$ 134,158	\$ 140,003	\$ 133,164	\$ 120,756	\$ 171,870	\$ 164,904	\$ 149,891
Total property expense	(75,136)	(70,124)	(58,602)	(46,961)	(48,839)	(48,123)	(56,384)	(51,364)	(49,523)	(90,890)	(89,957)	(83,910)
Internal property operating income	\$ 119,826	\$ 118,924	\$ 97,843	\$ 106,021	\$ 99,802	\$ 86,035	\$ 83,619	\$ 81,800	\$ 71,233	\$ 80,980	\$ 74,947	\$ 65,981

	Office Properties (cont'd)									Retail/Entertainment Properties			Total		
	Southwest			West			Total			Properties			Total		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Property operations															
Total property revenue	\$ 256,404	\$ 246,714	\$ 250,684	\$ 54,853	\$ 68,421	\$ 72,377	\$ 971,074	\$ 950,892	\$ 884,311	\$ 44,205	\$ 22,966	\$ 14,132	\$ 1,015,279	\$ 973,858	\$ 898,443
Total property expense	(116,117)	(107,378)	(103,790)	(21,037)	(24,834)	(27,297)	(406,525)	(392,496)	(371,245)	(19,215)	(9,699)	(6,985)	(425,740)	(402,195)	(378,230)
Internal property operating income	\$ 140,287	\$ 139,336	\$ 146,894	\$ 33,816	\$ 43,587	\$ 45,080	\$ 564,549	\$ 558,396	\$ 513,066	\$ 24,990	\$ 13,267	\$ 7,147	\$ 589,539	\$ 571,663	\$ 520,213
Total assets							\$ 5,433,533	\$ 5,137,099		\$ 662,902	\$ 426,897		\$ 6,096,435	\$ 5,563,996	

Notes to the Combined Consolidated Financial Statements
(\$ thousands)

14. SEGMENTED INFORMATION (CONT'D)

The following is a reconciliation of internal property net operating income to income before income taxes, extraordinary items and cumulative effect of a change in accounting principle.

(U.S. \$ thousands)	For the years ended December 31		
	2001	2000	1999
Internal property revenue	\$1,015,279	\$ 973,858	\$ 898,443
Less: real estate joint venture property revenue	(103,005)	(103,308)	(96,741)
Interest income	15,677	8,480	7,118
Total revenues	927,951	879,030	808,820
Internal property operating expenses	(425,740)	(402,195)	(378,230)
Add: real estate joint venture operating expenses	46,789	46,537	44,289
Total operating expenses and property taxes	(378,951)	(355,658)	(333,941)
General and administrative expense	(25,854)	(18,429)	(16,725)
Interest expense	(152,759)	(265,680)	(234,992)
Depreciation and amortization expense	(161,078)	(154,118)	(133,352)
Reorganization costs	(15,922)	(6,680)	(4,950)
Loss from securities investments	(15,371)	-	-
Derivative losses	(456)	-	-
Minority interest	433	580	1,459
Income from unconsolidated real estate joint ventures	12,952	19,417	16,207
Gain (loss) on sale of real estate and allowance for loss on properties held for disposition	(307,044)	33,185	(41,373)
Income (Loss) before Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	<u>\$ (116,099)</u>	<u>\$ 131,647</u>	<u>\$ 61,153</u>

15. EMPLOYEE BENEFIT PLANS

a. 401 (k) Plans

The TrizecHahn USA Employee 401 (k) Plan and the TrizecHahn Developments Employee 401 (k) Plan (the “401 (k) Plans”) were established to cover eligible employees of Trizec Properties and THDI and employees of any designated affiliates. The 401 (k) Plans permit eligible persons to defer up to 20% of their annual compensation, subject to certain limitations imposed by the Code. The employees’ elective deferrals are immediately vested and non-forfeitable upon contribution to the 401 (k) Plans. In 2001, Trizec Properties and THDI matched dollar for dollar employee contributions to the 401 (k) Plans up to 5% of the employee’s annual compensation not to exceed \$6.4. The Corporation incurred expense for the year ended December 31, 2001 of approximately \$2,137 (year ended December 31, 2000 – \$2,621; 1999 – \$2,295), related to the 401 (k) Plans.

b. Deferred Compensation Plan

On February 1, 1998, the Corporation commenced a deferred compensation plan for a select group of management and highly compensated employees. Under the plan employees are permitted to defer up to 100% of their base salary and/or bonus on a pre-tax basis and to notionally invest the deferred amount in various investment options. Additionally, the Corporation may make discretionary contributions under the plan on behalf of participants. Upon completion of a minimum deferral period of four years, participants’ may elect to release a portion of the deferred amount. In connection with the deferred compensation plan, a grantor trust has been established and contributions are made to the trust in amounts equal to participants’ deferrals and any discretionary contributions. Amounts deferred, and discretionary contributions if any, are expensed as funded. The amount expensed for the period ended December 31, 2001 was \$25 (December 31, 2000 – \$28; 1999 – \$20). As at December 31, 2001, the Corporation has assets, included in prepaid expenses and other assets, together with an equal amount in accounts payable of \$2,770 (December 31, 2000 – \$3,086) representing the contributions to the plan and obligations to the employees.

16. ESCROWED SHARE GRANTS

On November 9, 2000, the Corporation made grants of escrowed shares to certain U.S. employees under which an escrow agent purchased 904,350 of TrizecHahn’s subordinate voting shares in the open market, and deposited them in escrowed accounts. The employee is entitled to the voting rights and dividends paid on the shares during the period. One-third of the share grants vest and are released to the employees on each of the anniversary dates of the grant over a three-year period. Under certain employment termination conditions, the employee’s entitlement to the shares is forfeited and the shares are returned for cancellation, while fully accelerated vesting occurs if an employee is terminated without cause. The cost of acquiring the shares of \$12,402 is being amortized to compensation expense, on a straight-line basis, over the vesting period. Amounts expensed recognized in respect of the escrowed share grants totaled \$5,012 for the year ended December 31, 2001 and \$689 for the year ended December 31, 2000.

17. CONTINGENCIES

a. Litigation

The Corporation is contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. While the final outcome with respect to claims and litigation pending at December 31, 2001, cannot be predicted with certainty, in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Corporation.

b. Concentration of Credit Risk

The Corporation maintains its cash and cash equivalents at financial institutions. The combined account balances at each institution typically exceed Federal Deposit Insurance Corporation insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management believes that this risk is not significant.

The Corporation performs ongoing credit evaluations of tenants and may require tenants to provide some form of credit support such as corporate guarantees and/or other financial guarantees. Although the Corporation's properties are geographically diverse and tenants operate in a variety of industries, to the extent the Corporation has a significant concentration of rental revenue from any single tenant, the inability of that tenant to make its lease payment could have an adverse effect on the company.

c. Environmental

The Corporation, as an owner of real estate, is subject to various environmental laws of federal and local governments. Compliance by the Corporation with existing laws has not had a material adverse effect on the Corporation's financial condition and results of operations, and management does not believe it will have such an impact in the future. However, the Corporation cannot predict the impact of new or changed laws or regulations on its current properties or on properties that it may acquire in the future.

d. Insurance

The Corporation carries with third party insurers, comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from wars or environmental contamination) which are either uninsurable or not economically insurable.

17. CONTINGENCIES (CONT'D)

d. Insurance (cont'd)

The Corporation currently has insurance for earthquake risks, subject to certain policy limits and deductibles, and will continue to carry such insurance if it is economical to do so. There can be no assurance that earthquakes may not seriously damage the Corporation's properties (several of which are located in California, historically an earthquake-prone area) and that the recoverable amount of insurance proceeds will be sufficient to fully cover reconstruction costs and other losses suffered. The Corporation currently has insurance against acts of terrorism, subject to policy limits and deductibles, and subject to exemption for terrorist acts that constitute acts of war. There can be no assurance that insurance coverage for acts of terrorism will be available on commercially acceptable terms in the future. In addition, there can be no assurance that third party insurers will be able to maintain reinsurance sufficient to cover any losses that may be incurred as a result of terrorist acts. Should an uninsured or underinsured loss occur, the Corporation could lose its investment in, and anticipated income and cash flows from, one or more of its properties, but the Corporation would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

Additionally, although the Corporation generally obtains Owners' title insurance policies with respect to its properties, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, the Corporation could lose all or part of its investment in, and anticipated income and cash flows from, such property.

18. PRO FORMA STATEMENTS OF OPERATIONS (UNAUDITED)

The pro forma data presented below is included to illustrate the effect on the Corporation's operations as a result of the following transactions which occurred in 1999 and 2000 as if they occurred on January 1, 1999 and transactions which occurred in 2001 as if they occurred on January 1, 2000:

- The acquisition of properties (see note 3)
- The disposition of properties (see note 3)

The accompanying unaudited pro forma condensed financial information has been prepared by management of the Corporation and do not purport to be indicative of the results which would actually have been obtained had the transactions described above been completed on the dates indicated or which may be obtained in the future.

For the year ended December 31	2001	2000	1999
Total Revenues	<u>\$ 928,849</u>	<u>\$ 813,774</u>	<u>\$ 751,295</u>
Operating and property tax expenses	<u>\$ 377,355</u>	<u>\$ 333,988</u>	<u>\$ 318,393</u>
Net income (loss)	<u>\$ (149,541)</u>	<u>\$ 353,732</u>	<u>\$ 23,516</u>

19. SUBSEQUENT EVENTS (UNAUDITED)

TrizecHahn is currently negotiating with Chelsfield plc to sell to Chelsfield plc all of TrizecHahn's interest in Global Switch S.à.r.l a joint venture, for which Chelsfield plc is one of the other joint venture partners. The sale of this interest is expected to be for ordinary shares of Chelsfield plc, a UK real estate company whose shares are listed on the London stock exchange or, at Chelsfield plc's option, for cash payable in 2003. In connection with the negotiation of the sale transaction, TrizecHahn subsequent to December 31, 2001 agreed to advanced to Chelsfield plc up to £25 million by way of an unsecured loan commitment to be used to provide working capital for the Global Switch S.à.r.l. business and the ir buyout of the approximately 17% interest of another shareholder of Global Switch S.à.r.l. The £25 million unsecured loan is repayable in cash on June 28, 2002 or, in Chelsfield plc ordinary shares, if Chelsfield plc elects to acquire TrizecHahn's Global Switch S.à.r.l. interest for Chelsfield plc ordinary shares. TrizecHahn expects to complete a sale of its interest in Global Switch S.à.r.l. prior to the effective date of the Reorganization. On March 4, 2002 the Corporation advanced to TrizecHahn £25 million (\$35.6 million) to fund TrizecHahn's loan commitment to Chelsfield plc. It is expected that once TrizecHahn has completed its sale, they will transfer to the Corporation any shares of Chelsfield plc or loans receivable from Chelsfield plc prior to the effective date of the Reorganization in consideration for shares of the Corporation's stock and repayment of this intercompany advance. At December 31, 2001, TrizecHahn's carrying value of its joint venture investment in Global Switch was \$39.5 million. The ultimate value of the consideration the Corporation will pay for the transferred assets will vary based on a number of factors including the value of any Chelsfield plc share consideration.

Schedule III– Real Estate and Accumulated Depreciation as at December 31, 2001

(\$ thousands)

Description	Notes	Location	Encumbrances at 12/31/01	Initial Cost to Company		Subsequent Costs Capitalized, Net		Total Cost at 12/31/01			Accumulated Depreciation	Date of Construction/ Renovation	Date Acquired	Depreciable Lives (2)
				Land	Building and additions	Land	Building and additions	Land	Building and additions	Total (1)				
Properties held for the long term														
Rental Properties														
Atlanta														
Interstate North Parkway	4	Atlanta, GA	\$ (60,000)	\$ 6,900	\$ 63,619	\$ -	\$ 23,544	\$ 6,900	\$ 87,163	\$ 94,063	\$ (6,251)	1973/84	Dec. 10/98	40
Colony Square		Atlanta, GA	(72,250)	8,900	53,408	-	19,599	8,900	73,007	81,907	(11,837)	1970/73/95	Dec. 23/96	40
The Palisades		Atlanta, GA	(48,800)	7,650	67,499	-	15,558	7,650	83,057	90,707	(7,562)	1981/83/99	Dec. 16/98	40
Newmarket Business Park		Atlanta, GA	-	4,450	40,172	-	2,978	4,450	43,150	47,600	(3,617)	1979/89	Dec. 16/98	40
Lakeside Centre		Atlanta, GA	(31,000)	4,700	41,740	-	3,098	4,700	44,838	49,538	(3,416)	1984/86	Dec. 16/98	40
Midtown Plaza		Atlanta, GA	(49,590)	9,093	52,923	-	5,041	9,093	57,964	67,057	(6,792)	1984/85	Nov. 19/97	40
Total – Atlanta			(261,640)	41,693	319,361	-	69,818	41,693	389,179	430,872	(39,475)			
Chicago														
Franklin Garage		Chicago, IL	(26,852)	30,438	10,612	-	488	30,438	11,100	41,538	(1,268)	1974	Dec. 3/97	40
Two North LaSalle		Chicago, IL	(49,000)	9,305	54,094	-	13,644	9,305	67,738	77,043	(5,978)	1979	Dec. 10/98	40
10 South Riverside		Chicago, IL	(57,500)	10,838	63,171	-	18,536	10,838	81,707	92,545	(6,310)	1965	Dec. 10/98, Nov. 10/01	40
120 South Riverside		Chicago, IL	(56,000)	10,838	53,222	-	23,239	10,838	76,461	87,299	(6,980)	1967	Dec. 10/98, Nov. 10/01	40
550 West Washington		Chicago, IL	-	11,505	65,830	-	155	11,505	65,985	77,490	(1,034)	2000	May 15/01	40
Total – Chicago			(189,352)	72,924	246,929	-	56,062	72,924	302,991	375,915	(21,570)			
Dallas														
Renaissance Tower		Dallas, TX	(60,065)	3,150	105,834	-	28,296	3,150	134,130	137,280	(24,192)	1974/92	Oct. 31/96	40
Galleria Towers I, II and III		Dallas, TX	(137,514)	21,435	196,728	-	15,792	21,435	212,520	233,955	(15,426)	1982/85/91	Jan. 15/99	40
Plaza of the Americas		Dallas, TX	(66,160)	12,500	114,459	-	5,207	12,500	119,666	132,166	(10,801)	1980	Aug. 4/98	40
Park Central I & II		Dallas, TX	(8,500)	748	12,493	-	2,647	748	15,140	15,888	(1,322)	1970/71	Dec. 10/98	40
McKinney Place		Dallas, TX	(8,780)	1,035	8,557	-	1,541	1,035	10,098	11,133	(1,868)	1985	Oct. 31/96	40
Total – Dallas			(281,019)	38,868	438,071	-	53,483	38,868	491,554	530,422	(53,609)			
Houston														
Allen Center		Houston, TX	(350,411)	21,375	236,851	-	20,168	21,375	257,019	278,394	(36,016)	1972/78/80/95	Nov. 19/96	40
Continental Center I		Houston, TX	(110,310)	14,756	69,741	-	30,253	14,756	99,994	114,750	(19,742)	1984	Oct. 31/96	40
Continental Center II		Houston, TX	(22,541)	1,500	9,793	-	14,133	1,500	23,926	25,426	(5,422)	1971	Oct. 31/96	40
500 Jefferson		Houston, TX	-	413	7,937	-	3,383	413	11,320	11,733	(2,116)	1962/83	Oct. 31/96	40
3700 Bay Area Blvd		Houston, TX	-	3,675	33,659	-	2,974	3,675	36,633	40,308	(3,036)	1986	Aug. 5/98	40
Total – Houston			(483,262)	41,719	357,981	-	70,911	41,719	428,892	470,611	(66,332)			
Los Angeles Area														
Warner Center		Los Angeles, CA	-	5,115	25,692	-	5,326	5,115	31,018	36,133	(5,071)	1980	Oct. 31/96	40
9800 La Cienega		Los Angeles, CA	-	3,405	18,041	-	6,003	3,405	24,044	27,449	(5,619)	1985	Oct. 31/96	40
Landmark Square		Long Beach, CA	-	18,477	68,813	-	4,045	18,477	72,858	91,335	(6,639)	1991	Aug. 11/98	40
Shoreline Square		Long Beach, CA	-	5,707	59,138	-	3,620	5,707	62,758	68,465	(5,411)	1988	Sep. 24/98	40
Total – Los Angeles Area			-	32,704	171,684	-	18,994	32,704	190,678	223,382	(22,740)			

Schedule III– Real Estate and Accumulated Depreciation as at December 31, 2001

(\$ thousands)

Description	Notes	Location	Encumbrances at 12/31/01	Initial Cost to Company		Subsequent Costs Capitalized, Net		Total Cost at 12/31/01			Date of Construction/ Renovation	Date Acquired	Depreciable Lives (2)	
				Land	Building and additions	Land	Building and additions	Land	Building and additions	Total (1)				Accumulated Depreciation
New York Area														
One New York Plaza		New York, NY	(240,318)	58,676	340,107	-	8,187	58,676	348,294	406,970	(23,051)	1970/95	Apr. 30/99	40
110 William Street		New York, NY	(85,000)	12,450	77,711	-	10,863	12,450	88,574	101,024	(7,159)	1960	Dec. 10/98	40
1065 Ave. of the Americas	3	New York, NY	(37,864)	19,518	44,433	-	5,789	19,518	50,222	69,740	(5,157)	1958	Jan. 5/97	40
Newport Tower		Jersey City, NJ	(106,892)	2,054	161,582	-	1,613	2,054	163,195	165,249	(17,016)	1990	Feb. 24/97	40
Total – New York Area			(470,074)	92,698	623,833	-	26,452	92,698	650,285	742,983	(52,383)			
Washington, D.C. Area														
2000 L Street, N.W.		Washington, DC	(41,243)	7,728	56,767	-	18,843	7,728	75,610	83,338	(8,796)	1968/98	Feb. 2/98	40
Watergate Office Building		Washington, DC	(19,108)	4,853	45,281	-	3,755	4,853	49,036	53,889	(5,776)	1965/91	Feb. 2/98	40
1400 K Street, N.W.		Washington, DC	(22,275)	11,905	18,100	-	8,846	11,905	26,946	38,851	(3,308)	1982	Feb. 2/98	40
1250 Connecticut, N.W.		Washington, DC	(29,750)	6,457	37,427	-	1,325	6,457	38,752	45,209	(3,109)	1964/96	Jan. 11/99	40
1250 23 rd Street, N.W.		Washington, DC	(9,854)	3,515	24,922	-	347	3,515	25,269	28,784	(3,156)	1990	Feb. 2/98	40
2401 Pennsylvania		Washington, DC	(20,870)	4,419	24,674	-	1,167	4,419	25,841	30,260	(1,986)	1991	Dec. 16/98	40
1225 Connecticut		Washington, DC	-	8,865	51,010	-	154	8,865	51,164	60,029	(745)	1968/94	May 24/01	40
Bethesda Crescent		Bethesda, MD	(36,774)	7,359	55,509	-	2,655	7,359	58,164	65,523	(7,409)	1987	Dec. 23/97	40
Plaza West		Bethesda, MD	-	1,950	12,805	-	3,408	1,950	16,213	18,163	(1,900)	1965	Feb. 2/98	40
Twinbrook Metro Plaza		Rockville, MD	(17,199)	4,250	24,003	-	1,039	4,250	25,042	29,292	(2,141)	1986	Aug. 20/98	40
Silver Spring Metro Plaza		Silver Spring, MD	(68,790)	5,311	98,142	-	6,967	5,311	105,109	110,420	(8,243)	1986	Dec. 2/98	40
Silver Spring Centre		Silver Spring, MD	(15,280)	3,320	20,399	-	720	3,320	21,119	24,439	(1,963)	1987	Apr. 30/98	40
Goddard Corporate Park		Lanham, MD	(15,183)	3,842	24,437	-	911	3,842	25,348	29,190	(3,112)	1987	Feb. 2/98	40
Beaumeade Corporate Park		Washington, DC	(18,000)	2,103	11,733	-	10,442	2,103	22,175	24,278	(1,306)	1990/98/00	Dec. 16/98	40
Rosslyn Gateway		Arlington, VA	(19,523)	5,546	38,297	-	3,274	5,546	41,571	47,117	(5,163)	1970	Feb. 2/98	40
1550 & 1560 Wilson Boulevard		Arlington, VA	(31,000)	4,958	28,849	-	6,775	4,958	35,624	40,582	(3,164)	1983/1987	Dec. 10/98	40
2 Ballston Plaza		Arlington, VA	(27,360)	6,691	37,837	-	105	6,691	37,942	44,633	(668)	1988	May 11/01	40
Reston Unisys		Reston, VA	(23,970)	5,706	34,934	-	3	5,706	34,937	40,643	(4,519)	1980	Feb. 2/98	40
Reston Crescent – Phase 2		Reston, VA	(22,000)	4,145	810	-	19,958	4,145	20,768	24,913	(773)	2000	Feb. 2/98	40
Sunrise Tech Park		Reston, VA	(23,833)	6,346	36,618	-	282	6,346	36,900	43,246	(2,818)	1983/85	Dec. 15/98	40
Total-Washington, D.C. Area			(462,012)	109,269	682,554	-	90,976	109,269	773,530	882,799	(70,055)			
Charlotte														
Bank of Americas Plaza		Charlotte, NC	(67,002)	11,250	103,530	-	4,740	11,250	108,270	119,520	(7,872)	1974	Dec. 21/98	40
First Citizens Plaza		Charlotte, NC	-	-	61,348	-	4,000	-	65,348	65,348	(6,480)	1985	Jul. 15/98	40
Total – Charlotte			(67,002)	11,250	164,878	-	8,740	11,250	173,618	184,868	(14,352)			
Minneapolis														
Northstar Center		Minneapolis, MN	(14,399)	2,500	44,501	-	20,447	2,500	64,948	67,448	(6,719)	1916/62/86	Oct. 31/96	40
Minnesota Center		Minneapolis, MN	(23,000)	2,841	43,606	-	4,142	2,841	47,748	50,589	(4,491)	1987	Oct. 1/98	40
Total – Minneapolis			(37,399)	5,341	88,107	-	24,589	5,341	112,696	118,037	(11,210)			
Pittsburgh														
Gateway Center		Pittsburgh, PA	(42,329)	6,260	55,627	-	28,046	6,260	83,673	89,933	(18,723)	1952/60	Oct. 31/96	40
St. Louis														
Metropolitan Square		St. Louis, MO	(89,190)	13,625	125,636	-	4,725	13,625	130,361	143,986	(13,262)	1989	Dec. 8/97	40
St. Louis Place		St. Louis, MO	-	3,500	32,169	-	821	3,500	32,990	36,490	(2,679)	1983	Sep. 24/98	40
Total – St. Louis			(89,190)	17,125	157,805	-	5,546	17,125	163,351	180,476	(15,941)			

Schedule III– Real Estate and Accumulated Depreciation as at December 31, 2001

(\$ thousands)

Description	Notes	Location	Encumbrances at 12/31/01	Initial Cost to Company		Subsequent Costs Capitalized, Net		Total Cost at 12/31/01			Accumulated Depreciation	Date of Construction/ Renovation	Date Acquired	Depreciable Lives (2)
				Land	Building and additions	Land	Building and additions	Land	Building and additions	Total (1)				
Other														
250 West Pratt Street		Baltimore, MD	(29,867)	7,238	41,853	-	1,258	7,238	43,111	50,349	(4,364)	1986	Feb. 17/98	40
Bank of America Plaza		Columbia, SC	(21,106)	5,590	32,378	-	1,494	5,590	33,872	39,462	(3,526)	1989	Feb. 19/98	40
1441 Main Street		Columbia, SC	-	3,154	18,374	-	1,858	3,154	20,232	23,386	(2,785)	1988	Dec. 13/96	40
1333 Main Street		Columbia, SC	-	3,025	17,468	-	1,165	3,025	18,633	21,658	(2,092)	1983	Apr. 30/97	40
Borden Building		Columbus, OH	(31,000)	5,784	44,140	-	4,348	5,784	48,488	54,272	(4,401)	1974	Dec. 1/98	40
Clark Tower		Memphis, TN	(31,000)	5,450	50,089	-	3,146	5,450	53,235	58,685	(5,297)	1973/97	May 11/98	40
Capital Center II & III		Sacramento, CA	(33,000)	8,384	42,529	-	8,502	8,384	51,031	59,415	(7,702)	1984/85	Apr. 10/98	40
Williams Center I & II		Tulsa, OK	(37,500)	5,400	49,554	-	1,913	5,400	51,467	56,867	(3,999)	1982/83	Dec. 10/98	40
Esperante Office Building		West Palm Beach, FL	(23,856)	5,806	33,877	-	3,145	5,806	37,022	42,828	(3,635)	1989	Feb. 2/98	40
Total – Other			(207,329)	49,831	330,262	-	26,829	49,831	357,091	406,922	(37,801)			
Total rental properties			(2,590,608)	519,682	3,637,092	-	480,446	519,682	4,117,538	4,637,220	(424,191)			
Properties under development														
One Alliance Center		Buckhead, GA	(42,828)	10,079	-	-	72,436	10,079	72,436	82,515	-	n/a	Dec. 16/98	-
Total properties under development			(42,828)	10,079	-	-	72,436	10,079	72,436	82,515	-			
Properties held for future development														
Other residual land		Various	-	22,222	-	3,786	2,648	26,008	2,648	28,656	-			

Schedule III– Real Estate and Accumulated Depreciation as at December 31, 2001

(\$ thousands)

Description	Notes	Location	Encumbrances at 12/31/01	Initial Cost to Company		Subsequent Costs Capitalized, Net		Total Cost at 12/31/01			Date of Construction/ Renovation	Date Acquired	Depreciable Lives (2)	
				Land	Building and additions	Land	Building and additions	Land	Building and additions	Total (1)				Accumulated Depreciation
Properties held for disposition														
Rental properties														
Hanover Office Park	5	Greenbelt, MD	-	225	1,456	-	(667)	225	789	1,014	(202)	1987	Feb. 2/98	n/a
Perimeter Woods	5	Charlotte, NC	-	1,661	14,698	-	(476)	1,661	14,222	15,883	(859)	1991/98	Dec. 16/98	n/a
Desert Passage	5	Las Vegas, NV	(178,011)	28,131	240,150	-	(3,173)	28,131	236,977	265,108	(4,961)	2000	Mar. 31/01	n/a
Total rental properties			(178,011)	30,017	256,304	-	(4,316)	30,017	251,988	282,005	(6,022)			
Properties under development														
Paseo Colorado		Pasadena, CA	(58,927)	359	11,807	-	70,619	359	82,426	82,785	-	n/a	Oct. 31/96	-
Hollywood & Highland - retail	5	Los Angeles, CA	(106,760)	-	-	-	210,962	-	210,962	210,962	-	n/a	Mar. 11/97	-
Inner Belt	5	Boston, MA	(15,608)	24,027	3,562	(11,144)	(3,562)	12,883	-	12,883	-	n/a	Oct. 15/00	-
Total properties under development			(181,325)	24,386	15,369	(11,144)	278,019	13,242	293,388	306,630	-			
Properties held for future development														
Perimeter Woods	5	Charlotte, NC	-	10,883	-	-	-	10,883	-	10,883	-	n/a	Dec. 16/98	-
Valley Industrial Park	5	Seattle, WA	-	6,900	39,891	-	(19,189)	6,900	20,702	27,602	-	n/a	Sept. 29/00	-
Clybourn Center	5	Chicago, IL	-	11,967	-	(2,507)	-	9,460	-	9,460	-	n/a	Oct. 16/00	-
Total properties held for future development			-	29,750	39,891	(2,507)	(19,189)	27,243	20,702	47,945	-			
Total properties held for disposition			(359,336)	84,153	311,564	(13,651)	254,514	70,502	566,078	636,580	(6,022)			
Management business														
Furniture, fixtures and equipment			-	-	14,060	-	-	-	14,060	14,060	(8,371)			
			-	-	14,060	-	-	-	14,060	14,060	(8,371)			
Total real estate			\$(2,992,772)	\$636,136	\$3,962,716	\$(9,865)	\$810,044	\$626,271	\$4,772,760	\$5,399,031	\$(438,584)			

Schedule III– Real Estate and Accumulated Depreciation as at December 31, 2001
(\$ thousands)

Notes:

1. The aggregate cost for Federal Income Tax purposes as of December 31, 2001 was approximately \$3.7 billion.
2. The life to compute depreciation on buildings is 40 years. The life to compute depreciation on building improvements is over the term of the related lease. Furniture, fixtures and equipment are depreciated over periods of up to 10 years.
3. The Corporation has a 99% legal ownership interest in this property.
4. This property was previously under development and was placed into service in 2001.
5. During the year ended December 31, 2001, the Corporation recorded the following allowance for loss related to these properties:

Desert Passage	\$ 17,544
Hollywood Highland – Retail	170,139
Inner Belt	21,600
Valley Industrial Park	32,800
Clybourn Center	8,533
Perimeter Woods	1,887
Hanover Office park	727
	<u>\$ 253,230</u>

A summary of activity of investment in real estate and accumulated depreciation is as follows:

The changes in investment in real estate for the years ended December 31, 2001, 2000 and 1999, are as follows:

	December 31 2001	December 31 2000	December 31 1999
Balance, beginning of the year	\$ 4,883,826	\$ 4,940,601	\$ 4,143,038
Additions during year:			
Acquisitions	202,740	86,347	660,830
Improvements	428,081	340,875	213,875
Previously held in a non-consolidated joint venture now consolidated	268,281	-	84,167
Deductions during year:			
Properties disposed of	(124,024)	(478,669)	(120,656)
Allowance for loss on properties held for disposition	(253,230)	-	-
Contribution to non-consolidated joint ventures	-	-	(37,037)
Write-off of fully depreciated assets	(6,643)	(5,328)	(3,616)
Balance, end of year	\$ 5,399,031	\$ 4,883,826	\$ 4,940,601

The changes in accumulated depreciation for the years ended December 31, 2001, 2000 and 1999, are as follows:

	December 31 2001	December 31 2000	December 31 1999
Balance, beginning of the year	\$ (305,038)	\$ (206,248)	\$ (91,229)
Additions during year:			
Depreciation	(144,680)	(141,607)	(120,977)
Previously held in a non-consolidated joint venture now consolidated	(2,927)	-	-
Deductions during year:			
Properties disposed of	7,418	37,489	2,342
Write-off of fully depreciated assets	6,643	5,328	3,616
Balance, end of year	\$ (438,584)	\$ (305,038)	\$ (206,248)